

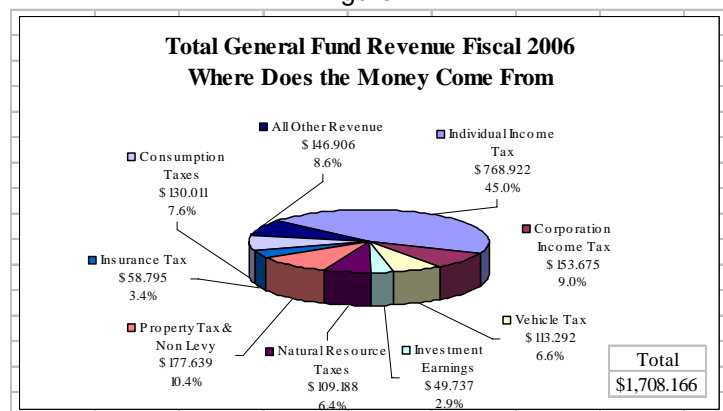


# GENERAL FUND OUTLOOK

## OVERVIEW

The state general fund is the primary account that funds a significant portion of the general operations of state government and is often referred to as the state's checking account. Revenue in this account has grown from slightly more than \$730 million in fiscal 1990 to over \$1.708 billion in fiscal 2006, or approximately 5.5 percent annually. Figure 1 shows where the money in this account comes from by major revenue category, while Figure 2 shows how the money is expended by major expenditure category. The information shown in both figures represents actual data for fiscal 2006.

Figure 1



In fiscal 2006, 64 percent of total general fund revenues came from income and property taxes. Total revenues to the account for the 2009 biennium are estimated to be nearly \$3.673 billion, which is an increase of \$202.5 million, or 5.8 percent from the 2007 biennium.

As shown in Figure 2, about 25 percent of the general fund revenue is expended for personal services and operating costs with most of the remainder disbursed for local assistance, human service benefits, and grants. This indicates that the cost of government is weighted heavily towards local assistance (local government entities including public schools) and direct human service benefits. Total general fund disbursements represent approximately 41 percent of all state expenditures in the general, state special, federal special, and selected proprietary fund types.

Figure 2

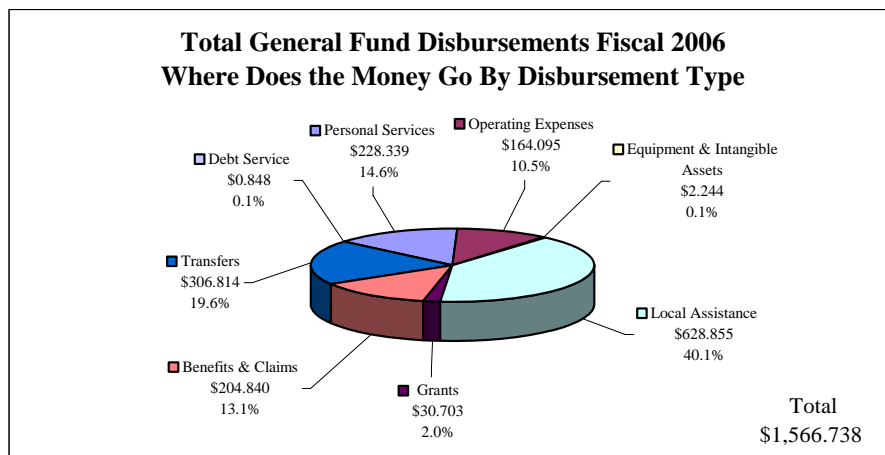
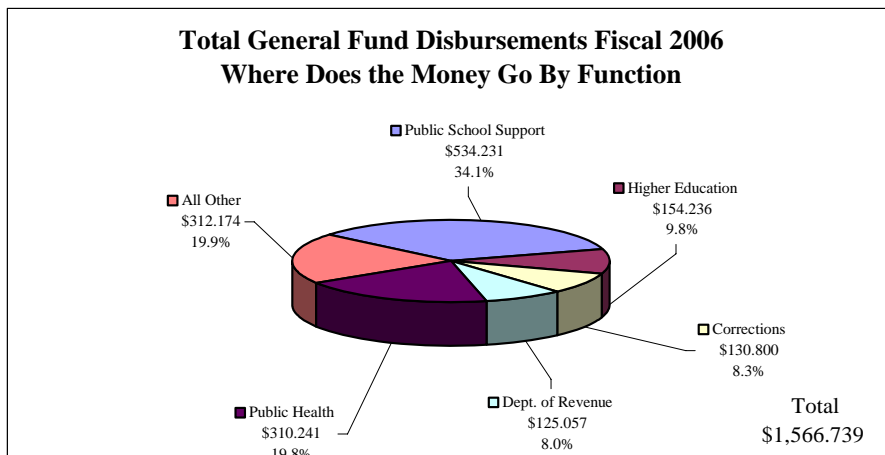


Figure 3 shows how the general revenues are expended by governmental function. As the figure shows, education consumes almost 44 percent, human services almost 20 percent, and corrections about 8 percent of general fund revenues. It should be noted that statutory and transfer appropriation expenditures are shown under the function that is responsible for the payment. For example, the Department of Revenue (DOR) is responsible for local government entitlement payments. Although these expenditures are made with a statutory appropriation, these costs are included with total DOR expenditures.

Figure 3



Balancing general fund appropriations against anticipated revenues is a major challenge of each legislative session and requires a significant coordination between the taxation and appropriation committees. Based on revenue estimates adopted by the Revenue and Transportation Interim Committee (RTIC) on November 15, 2006, there are sufficient revenues to support

the executive present law budget recommendations, leaving a ending fund balance of \$879.9 million. If the present law budget analysis of LFD staff is used, an ending fund balance of \$989.4 million is achieved.

#### LFD ISSUE

The present law budget request as developed by the executive is \$471.0 million for the 2009 biennium. Analysis prepared by LFD staff computes the present law budget to be \$361.5 million or \$109.5 million less than the executive request. As defined by statute, present law budget is the level of additional funding needed under present law to maintain operations and services at the level authorized by the previous legislature. With this type of difference, it will be difficult for the legislature to adequately determine the funds necessary to maintain existing governmental operations. This issue hampers the legislature's ability to effectively establish spending priorities from available funds. The legislature may want to consider strengthening the statutory requirements with regard to present law budget submissions. See further discussion of this issue on page 152.

Because of this high balance, there are sufficient revenues to accommodate all of the executive new proposals, including the executive's higher present law request. If the total executive budget were funded as requested, the ending balance in the general fund would be \$100.0 million with \$122.2 million available in the Big Sky Savings Account. The Big Sky Savings Account is an executive proposal to transfer revenue above specified caps in spending into a "savings account". The purpose of the account would be to "protect Montanans from the impacts of potential future boom and bust cycles."

The next section of the budget analysis provides a summary of the 2007-2009 biennium economic assumptions and associated revenue estimates as adopted by RTIC, including a graphic view of the significant economic assumptions.

The 2007-2009 revenue outlook is followed by a summary of the general fund account as projected through the 2007 biennium. This reconciliation of the current (2007 biennium) projected fund balance is necessary in order to arrive at the beginning balance for the 2009 biennium. Additionally, a summary of the projected present law general fund balance using RTIC revenue estimates is shown. A projected general fund balance is also shown when the executive new proposals are included.

Finally, the differences between the executive proposed fund balance and the balance using RTIC revenue estimates and LFD statutory disbursement and reversion computations are explained.

## FY 2007 - 2009 REVENUE OUTLOOK

### INTRODUCTION

The state's financial picture is probably the most optimistic budget situation the state has ever faced. Not only are anticipated revenues significantly above the level of funding needed to fund "present law" services, the projected ending fund balance for the current biennium is well above an ending fund balance reserve advocated by national experts. Because this balance is so high, the legislature should consider using these funds for one-time initiatives and not for policies that will require additional funding in subsequent biennia.

However, large federal deficits, unfunded retirement funds, school funding issues, health care costs, rising correctional populations, and national economic uncertainties could be significant budget "busters". With the prospect of federal funding reductions, the continued threat of terrorism attacks, and the ongoing US war in Iraq, makes the job of developing prudent revenue estimates an extremely difficult task. Artificially low estimates may cause the legislature to reduce or restrain state services that fall below the legislature's priority line. Estimates that are too high may create the temptation for the legislature to fund state services that the state cannot afford. Obviously, the last scenario would result in spending reductions by the executive and/or a special session.

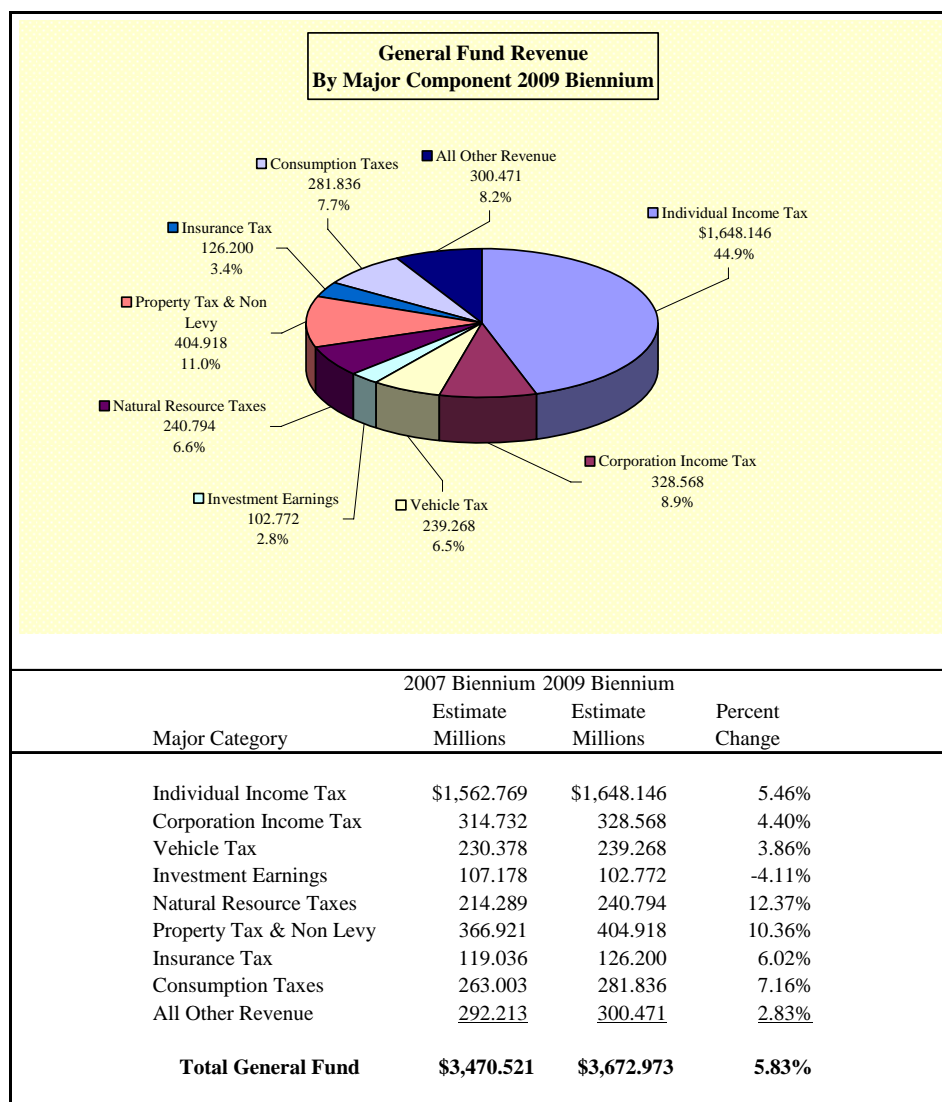
As delineated in Section 5-18-107(1) (a), MCA, the Revenue and Transportation Interim Committee (RTIC) is required to prepare "an estimate of the amount of revenue projected to be available for legislative appropriation." In addition, sections 5-12-302(2) and 5-12-307(7) specifically require the Legislative Fiscal Analyst (LFA) to "estimate revenue from existing and proposed taxes" and also requires the LFA to "assist the revenue and transportation committee in performing its revenue estimating duties..."

The next section of the report highlights the significant economic assumptions used by the RTIC to develop the revenue estimate recommendations contained in HJ 2, the revenue estimate resolution. Each assumption is discussed and is graphically portrayed to give the reader a perspective of the historical trend versus the forecast amount.

### GENERAL FUND REVENUE IMPLICATIONS

Montana's fiscal outlook for revenue growth is anticipated to return to a more historical pattern as compared to the last biennium. The key economic assumptions targeted as most affecting state government receipts are Montana total income, employment, population levels, inflation rates, corporate profits, property values, interest rates, and energy prices.

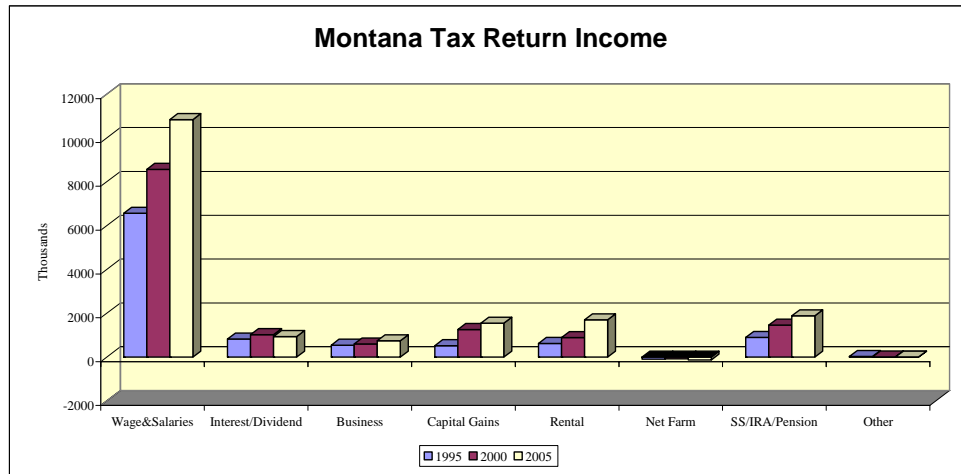
As shown in the following figure, individual income tax, corporation income tax, property tax, vehicle tax, and investment earnings are expected to contribute over 74 percent to the total general fund revenue stream during the 2009 biennium. Total general fund revenues for the 2009 biennium are projected to increase 5.8 percent over the 2007 biennium projections. The comparative change by major revenue category is shown at the bottom of the figure.



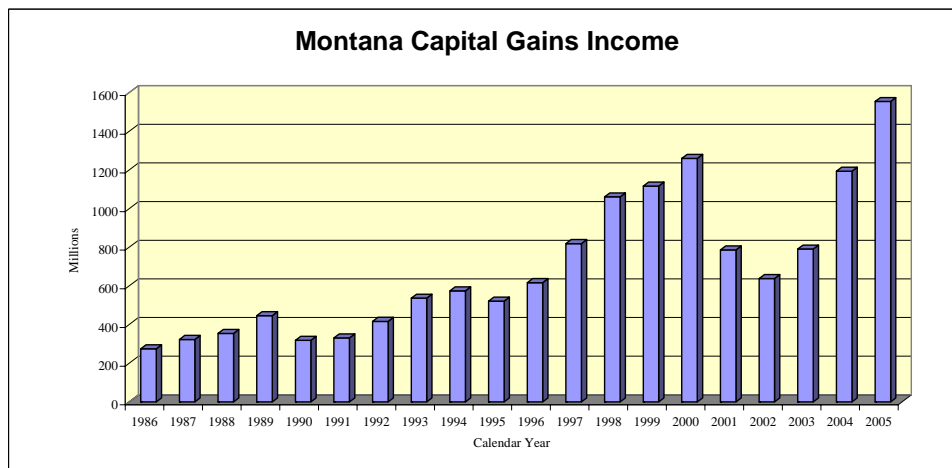
The next section of the report highlights the significant economic assumptions used by the RTIC to develop the revenue estimate recommendations contained in "Volume 2 – Revenue Estimates". Each assumption is discussed and is graphically portrayed to give the reader a perspective of the historical trend versus the forecast amount.

## MONTANA TOTAL INCOME

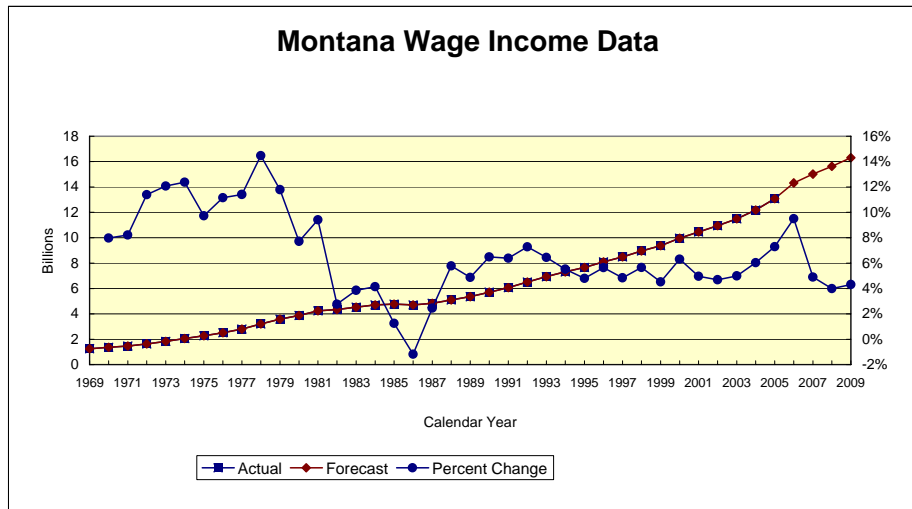
The total of all income sources listed on the Montana personal income tax form is referred to as Montana total income. The Department of Revenue tracks income from 11 different components, including wages, interest, dividends, business, capital gains, supplemental, rental, farm, social security, IRA and pension, and other incomes. Montana total income is the single most important variable to consider in the revenue estimation process. Of the 11 income items, wage and salary income provides the largest portion of Montana total income. Since 1990, wage and salary income has contributed an annual average of 65.2 percent of total income. In calendar 2005, it contributed 61.7 percent, or \$10.8 billion. The average compounded growth from calendar 1990 to 2005 has been 5.3 percent.



In recent times, capital gains income has been the focus of much conversation and speculation. Capital gains income has increased in relative importance over the decade. In 1990, capital gains made up only 4.2 percent of total income, with reported income of \$318 million. In 2001, capital gains receded to 5.7 percent of total income, with income at \$786 million, a reduction of over 37.6 percent over the previous year. In 2005, capital gains income was \$ 1.554 billion and increased to nearly 8.9 percent of total income.



In 2002 capital gains income fell by \$622.3 million from the 2000 level, but rebounded in calendar 2003 through 2005. Capital gains are projected to remain constant between 2006 and 2009.



## MONTANA WAGES

The average annual growth in Montana wages and salaries has been 5.3 percent between 1990 and 2005. Lower wage growth has been experienced in the latter half (5.1 percent) of this period than in first half (5.5 percent). This is due to lower growth in employment and lower inflation since 1997. Somewhat countervailing these trends has been an increase in real wage per worker since 1997. The average annual growth in real wage per worker was -0.2 percent between 1990 and 1997, but has averaged 1.2 percent since then. It appears that growth in real wage per worker may reach 3.9 percent in calendar 2006.

The forecast for inflation between calendar years 2005 and 2009 is the same as used by the Congressional Budget Office for the federal budget. Employment is expected to grow 2.0 percent in calendar year 2006, 1.6 percent in 2007, 1.4 percent in 2008, and 1.2 percent in calendar year 2009.

The growth in real wage per worker is forecast to decline to between 0.5 percent and 1 percent in calendar years 2007 through 2009 from its current high levels, above the long run average, but below levels seen recently.

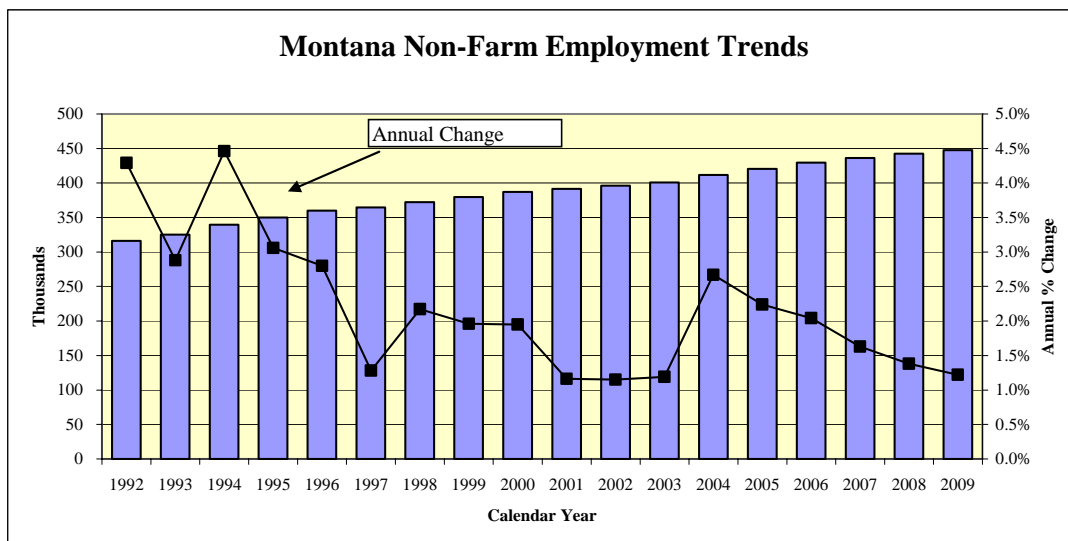
The growth in wages and salaries, unadjusted for inflation, is expected to grow by 9.5 percent in calendar 2006. First half growth in calendar 2006 is 9.9 percent, but second half growth is usually lower than first half growth when first half growth exceeds the long run average.

The growth in wages and salaries is expected to be 4.9 percent in calendar year 2007, 4.0 percent in 2008 and, 4.3 percent in 2009.

Wage and Salary Income Growth					
	Calendar Year	Employment Growth	Inflation	Real Wage Per Worker	Wage Growth
A	1991	2.1%	4.8%	-0.6%	6.4%
A	1992	4.3%	3.6%	-0.7%	7.3%
A	1993	2.9%	3.0%	0.5%	6.5%
A	1994	4.5%	2.8%	-1.7%	5.5%
A	1995	3.1%	2.7%	-1.0%	4.8%
A	1996	2.8%	2.9%	-0.1%	5.6%
A	1997	1.3%	2.6%	0.9%	4.8%
A	1998	2.2%	1.9%	1.5%	5.7%
A	1999	2.0%	1.9%	0.6%	4.5%
A	2000	1.9%	2.8%	1.4%	6.3%
A	2001	1.2%	3.1%	0.7%	5.0%
A	2002	1.1%	2.2%	1.3%	4.7%
A	2003	1.2%	2.0%	1.8%	5.0%
A	2004	2.7%	2.5%	0.8%	6.0%
A	2005	2.2%	3.0%	1.9%	7.3%
F	2006	2.0%	3.3%	3.9%	9.50%
F	2007	1.6%	2.7%	0.5%	4.91%
F	2008	1.4%	2.1%	0.5%	4.00%
F	2009	1.2%	1.9%	1.1%	4.31%

## MONTANA EMPLOYMENT

Average annual growth in total employment between 1990 and 2005 has been 2.4 percent, although since 2000 the average rate of growth has been 1.7 percent. It is expected that employment growth through 2006 will be 2.0 percent and grow by about 1.4 percent in calendar years 2007, 2008, and 2009. Since 1990, the fastest growing sector in terms of employment has been construction, which experienced a 6.6 percent annual increase in employment. Other fast growing sectors have been professional and business services (5.5 percent annual growth), education and health services (3.2 percent annual growth), accommodation and food services (3.1 percent annual growth). Sectors that have experienced reduced or stable employment since 1990 are mining and manufacturing. Mining employment is expected to increase during the forecast period.

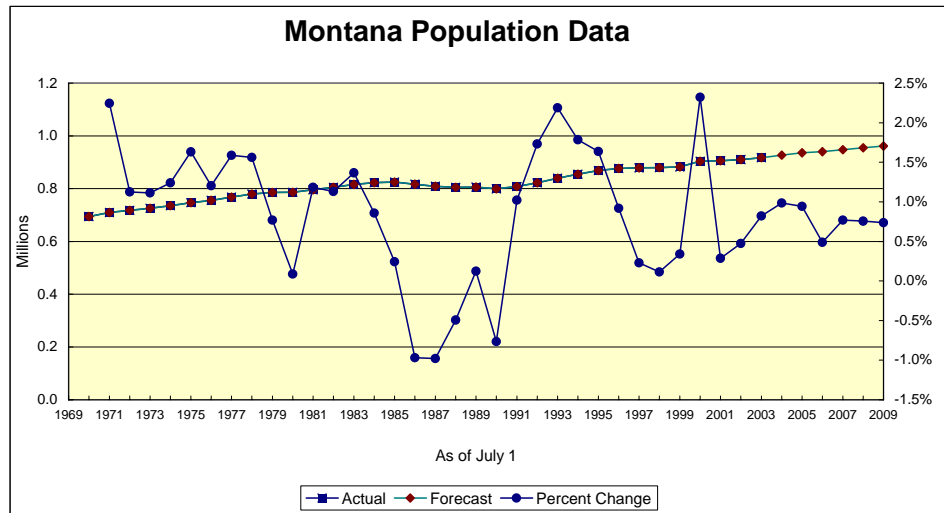


## MONTANA POPULATION

Population statistics are used to develop estimates for many of the revenue sources including beer, wine, liquor, and cigarette taxes. In addition to those sources where population has a direct effect, the size of the population indirectly affects the profitability of all businesses and the employment levels statewide. Accurate population estimates are especially important when determining the changes expected in overall and per capita income for the state.

Consumption of any given item is highly reliant upon the size of the population, so accurate population forecasts are essential when determining tax revenues from the sources mentioned above. Historic population data is gathered from the U.S. Census department while projections are obtained from Global Insight, an economic forecasting company. Since the early 1990's, Montana has experienced positive growth in total population varying between 0.1 percent in 1998 to 2.3 percent in 2000. Growth through the next biennium is estimated at about 0.7 percent annually.

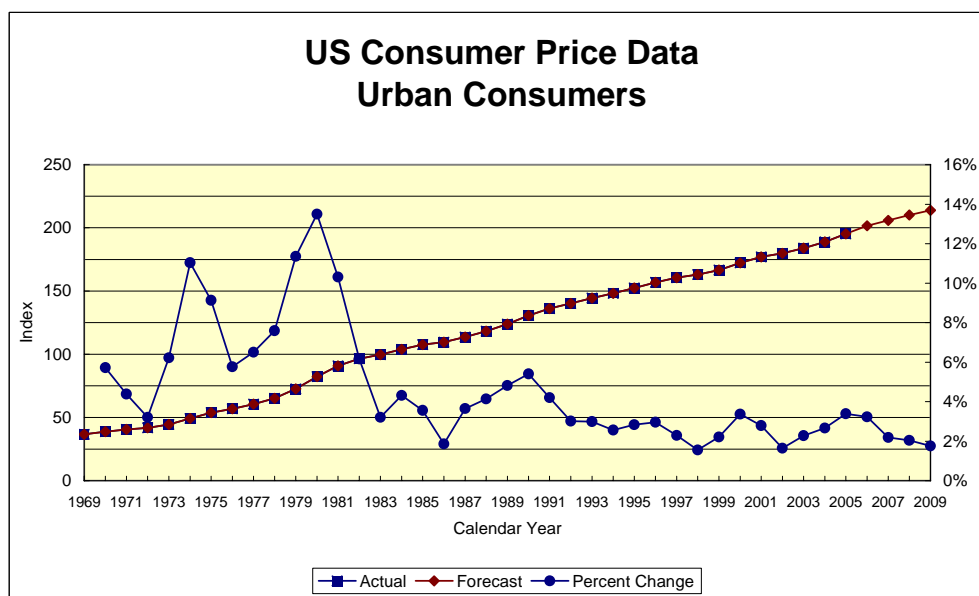




## INFLATION RATES

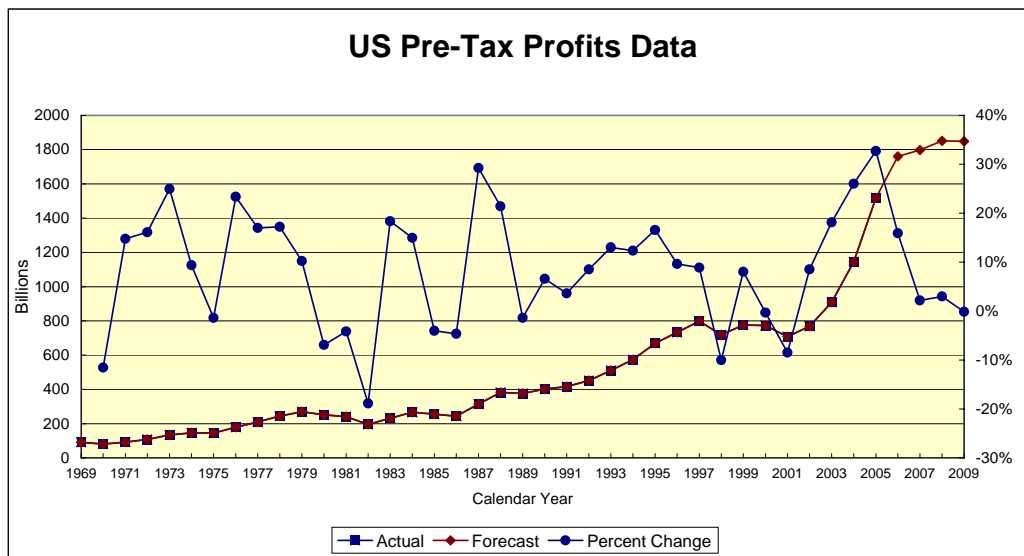
The inflation rate is measured by the price change of the Consumer Price Index (CPI) “shopping basket” of goods and services. Inflation is noted to have both good and bad effects. As prices rise, businesses increase prices and tend to become more profitable. At the same time, the consumer realizes a reduction in disposable income and spends less. Several areas where this information is vital in determining costs include minerals, timber, energy resources, and most services.

Since Montana’s individual income tax structure is fully indexed by changes in the consumer price index, this assumption is critical in the formulation of the individual income tax forecasts. The U.S. Bureau of Labor Statistics provides the required CPI data for the all-urban customers data set. Since 1990, the average annual rate of inflation has been 2.7 percent. Global Insight forecasts inflation at 2.1 percent (October 2006). The average forecast used by the Congressional Budget Office and other private economists is 2.2 percent per year through calendar 2009. The RTIC forecast averages 2.0 percent between 2007 and 2009.



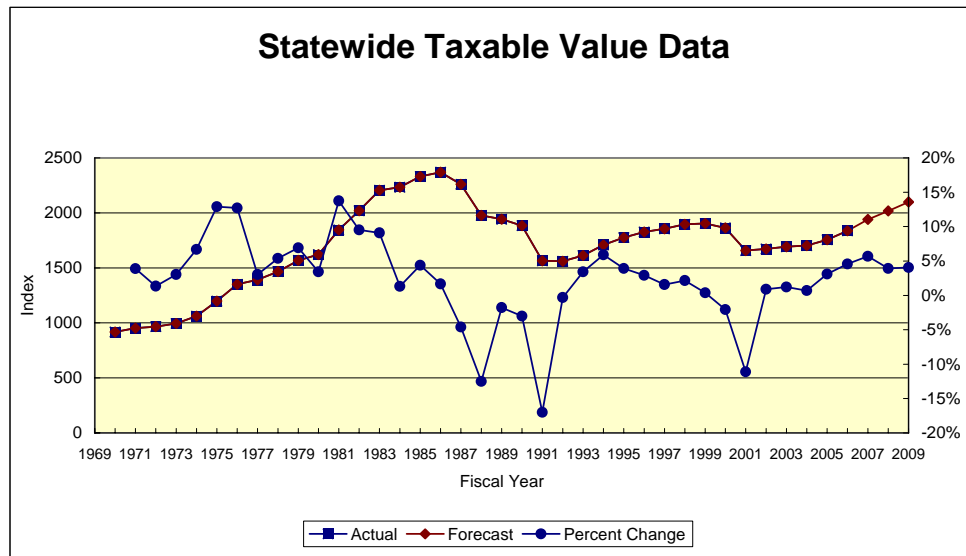
## CORPORATE PROFITS

The profitability of corporate America is an important factor in estimating revenues. Corporate profitability effects both corporation license tax and individual income tax estimates. When corporations are profitable nationally, there is an expectation that corporations will be profitable in Montana. Additionally, greater corporate profitability is largely responsible for the amount of dividends corporations pay to stockholders as well as the value of equity investments. During the most recent years, the reduction of corporate profits has translated to lower corporate license tax collections. According to Global Insight, between 1990 and 1997, US corporation pre-tax profits increased by an annual average of 10.3 percent. However, from 1997 through 2001, profits decreased by an average of 3.0 percent, the greatest decrease of 8.5 percent occurring in 2001. In 2004 and 2005, corporate profitability increased by 26.0 percent and 32.7 percent respectively. That trend is not expected to continue. Average annual increases of approximately 1.7 percent are expected between 2007 and 2009.

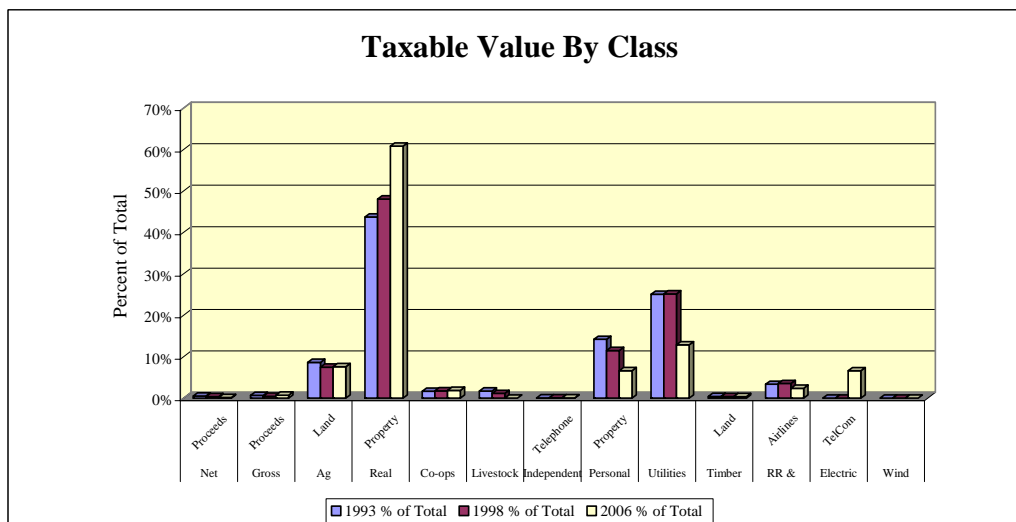


## PROPERTY VALUES

Change in statewide property values is the critical assumption behind the estimates for property taxes. Historic property values are obtained from the Montana Department of Revenue. Total statewide taxable value increased slowly during the first part of the 1990's but fell in fiscal 2000. This decline was primarily due to business equipment tax changes enacted by previous legislatures. Other reductions occurred in electrical generating and telecommunication property. Property values resumed an upward trend in 2001 and have increased every year since that time. That trend is expected to continue through the next biennium with an average annual growth of about 4.0 percent. (Note: 2007 – 2009)



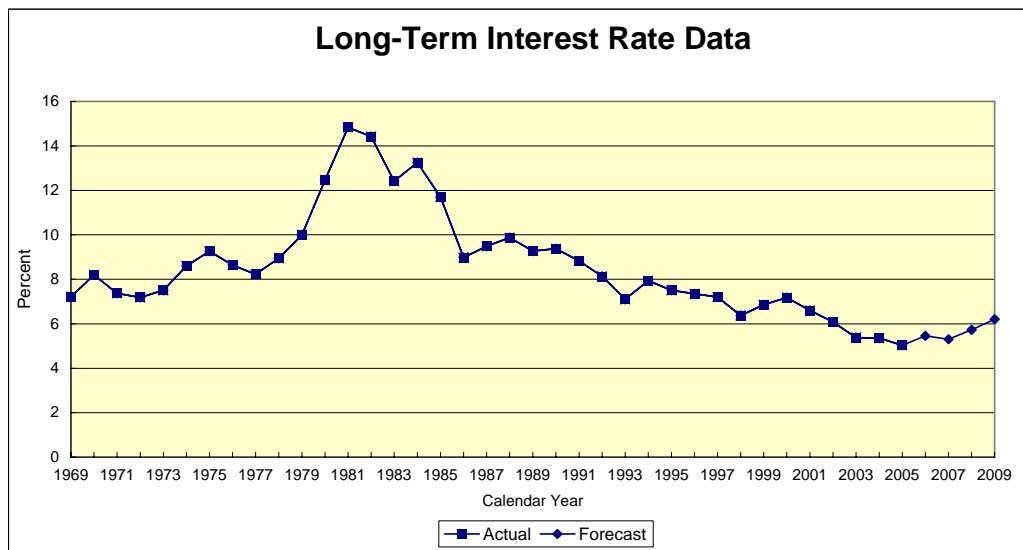
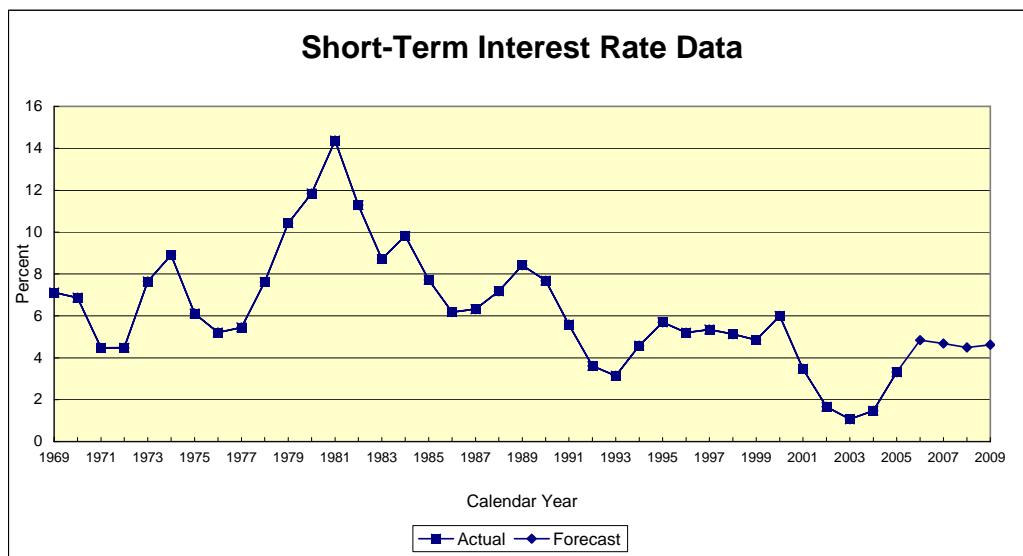
Significant changes have taken place in statewide property values since fiscal 1998. In that year, 48.0 percent of total statewide value was in class 4, residential and commercial property, and 11.5 percent of total value was in class 8, business equipment personal property. In fiscal 2006, the class 4 taxable value was 60.8 percent of the total property tax base, while class 8 was only 6.6 percent of the base.



## INTEREST RATES

A large portion of Montana's revenues is derived from investment earnings from trust accounts and daily invested cash. Interest rates also affect the amount of investment income that is reported on individual income tax returns. As such, interest rates are a significant assumption when estimating future state revenues.

In addition to the state revenue impact, interest rates are fundamental in understanding the climate in which consumers and businesses are likely to make investments and large purchases. While low interest rates produce less revenue for Montana's trust and interest holdings, higher income tax earnings might be expected as construction and sales activities increase. Two types of interest rates, long and short-term, are estimated and used in determining future revenues. Both rates are an average across a selection of investment instruments. The forecasted rates are obtained from Global Insight. Long-term rates are an average of Corporate Aaa and Baa bonds, 10-year T bonds, and 30-year T bonds. Short-term rates are an average of 3 month Corporate paper and 3 and 6 month T-bills. The fiscal year computation of short-term interest rates reached an unprecedented low in 2004. However, as the economy began to regain strength in calendar year 2004, the Federal Reserve began increasing the discount rate. Global Insight projects short-term interest rates will remain stable at current rates through the 2009 biennium. Long-term rates are expected to increase through the 2009 biennium.



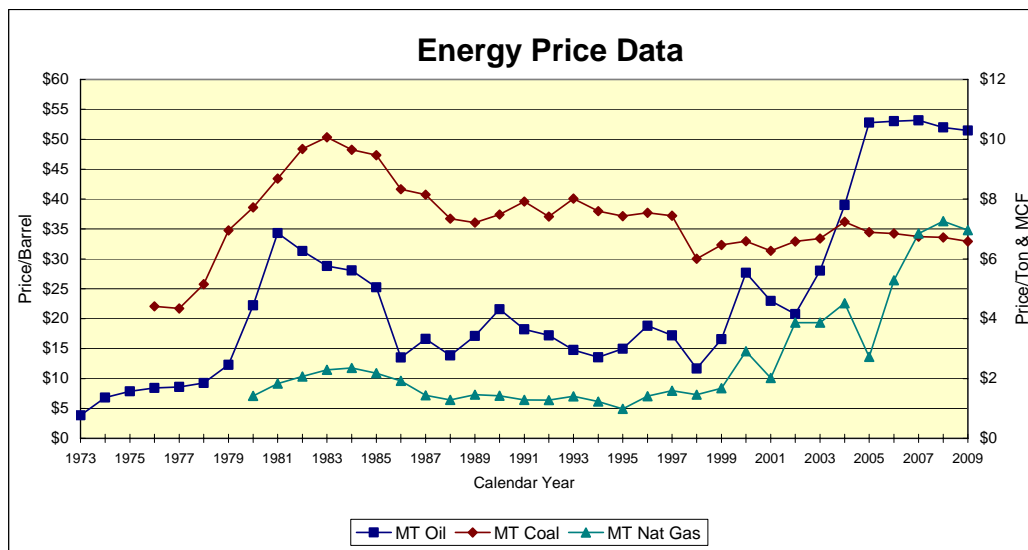
## ENERGY PRICES AND PRODUCTION

West Texas Intermediate oil prices averaged \$26.11 per barrel in calendar 2002, rose to \$31.12 in calendar 2003, and averaged \$56.55 in calendar 2005. Global Insights forecasts WTI oil prices to increase to \$67.00 in calendar 2006, and then drop to \$65.62 in calendar 2007. A further drop to \$64.75 and \$63.87 in calendar 2008 and 2009, respectively is anticipated. While Montana wellhead prices are considerably lower than the WTI price, Montana prices are expected to follow a similar trend.

Natural gas prices at the wellhead in the US averaged \$2.87 per million cubic feet in calendar 2002, rose to \$4.84 in calendar 2003, and averaged \$7.31 in calendar 2004. Global Insights is forecasting average Henry Hub natural gas prices at \$8.18 in calendar 2007, \$8.65 in calendar 2008, and \$8.29 in calendar 2009 (December 2006). While Montana wellhead prices are considerably lower than the Henry Hub price, Montana prices are expected to follow a similar trend.

After decades long reductions in oil production – from a peak in 1973 of 34 million barrels to a trough in 1999 of 15 million barrels – recent Montana production has increased. New drilling activity increased 75 percent in 2003, and has increased nearly the same amount in 2004. In calendar 2005, production was over 32 million barrels and will probably be near 35 million barrels in calendar 2006. Montana oil production is expected to be just over 38 million barrels in calendar 2007, just over 36 million barrels in calendar 2008, and declining to 32 million barrels in calendar 2009.

Natural gas production in Montana doubled between 1981 and 2003, going from 40 million cubic feet (MCF) to 80 million MCF, with 75 percent of that increase occurring since 1997, in response to higher prices. Newly drilled wells have contributed around 20 percent to total production since calendar 2000. As in the oil market, new drilling activity was up substantially in calendar 2003 and 2004. Montana natural gas production is expected to be 107 million MCF in calendar 2006, and 2007, 104 million MCF in calendar 2008, and 100 million MCF in calendar 2009.



## GENERAL FUND REVENUE ESTIMATES

The following figures show the RTIC general fund and non-general fund revenue recommendations for fiscal years 2007, 2008, and 2009. These recommendations are based on the major assumptions discussed previously.

<b>Revenue &amp; Transportation Interim Committee</b> <b>General Fund Revenue Estimates</b> In Millions								
Source of Revenue	Percent of 2006	Actual Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 2008	Estimated Fiscal 2009	Estimated Fiscal 06-07	Estimated Fiscal 08-09	Cumulative % of Total
1 Individual Income Tax	45.01%	\$768.922	\$793.847	\$797.035	\$851.111	\$1,562.769	\$1,648.146	44.87%
2 Property Tax	10.40%	177.639	189.282	198.124	206.794	366.921	404.918	55.90%
3 Corporation Income Tax	9.00%	153.675	161.057	161.301	167.267	314.732	328.568	64.84%
4 Vehicle Tax	5.39%	92.097	106.473	109.028	111.645	198.570	220.673	70.85%
5 Common School Interest and Income	0.00%	-	-	-	-	-	-	70.85%
6 Insurance Tax & License Fees	3.44%	58.795	60.241	62.129	64.071	119.036	126.200	74.29%
7 Coal Trust Interest	1.82%	31.106	29.959	29.927	29.945	61.065	59.872	75.92%
8 US Mineral Royalty	1.72%	29.304	28.680	31.694	29.400	57.984	61.094	77.58%
9 All Other Revenue	1.87%	31.867	31.542	30.877	31.550	63.409	62.427	79.28%
10 Tobacco Settlement	0.16%	2.734	2.822	3.855	3.996	5.556	7.851	79.49%
11 Telecommunications Excise Tax	1.24%	21.209	21.255	21.298	21.335	42.464	42.633	80.65%
12 Video Gambling Tax	3.35%	57.277	59.871	63.649	67.646	117.148	131.295	84.23%
13 Treasury Cash Account Interest	1.09%	18.631	27.482	21.546	21.354	46.113	42.900	85.40%
14 Estate Tax	0.10%	1.773	0.706	0.310	0.113	2.479	0.423	85.41%
15 Oil & Natural Gas Production Tax	5.42%	92.563	86.241	101.224	101.288	178.804	202.512	90.92%
16 Motor Vehicle Fee	1.24%	21.195	10.613	9.201	9.394	31.808	18.595	91.43%
17 Public Institution Reimbursements	0.75%	12.728	11.451	12.742	12.810	24.179	25.552	92.12%
18 Lodging Facility Use Tax	0.63%	10.679	11.290	11.881	12.504	21.969	24.385	92.79%
19 Coal Severance Tax	0.56%	9.597	9.813	10.114	9.688	19.410	19.802	93.33%
20 Liquor Excise & License Tax	0.74%	12.709	13.639	14.573	15.551	26.348	30.124	94.15%
21 Cigarette Tax	2.02%	34.573	34.516	33.843	33.308	69.089	67.151	95.97%
22 Investment License Fee	0.33%	5.584	6.002	6.451	6.933	11.586	13.384	96.34%
23 Lottery Profits	0.53%	9.110	8.345	8.838	9.414	17.455	18.252	96.84%
24 Liquor Profits	0.44%	7.450	7.593	8.047	8.515	15.043	16.562	97.29%
25 Nursing Facilities Fee	0.33%	5.712	5.814	5.781	5.752	11.526	11.533	97.60%
26 Foreign Capital Depository Tax	0.00%	-	-	-	-	-	-	97.60%
27 Electrical Energy Tax	0.27%	4.645	4.698	4.798	4.797	9.343	9.595	97.86%
28 Metalliferous Mines Tax	0.41%	7.028	9.048	9.613	8.867	16.076	18.480	98.37%
29 Highway Patrol Fines	0.25%	4.316	4.926	4.974	5.023	9.242	9.997	98.64%
30 Public Contractors Tax	0.25%	4.275	3.883	3.417	3.403	8.158	6.820	98.82%
31 Wholesale Energy Tax	0.22%	3.813	3.814	3.827	3.811	7.627	7.638	99.03%
32 Tobacco Tax	0.26%	4.360	4.401	4.385	4.406	8.761	8.791	99.27%
33 Driver's License Fee	0.22%	3.828	3.918	3.952	3.983	7.746	7.935	99.49%
34 Rental Car Sales Tax	0.16%	2.755	2.875	3.000	3.131	5.630	6.131	99.65%
35 Railroad Car Tax	0.10%	1.667	1.631	1.567	1.506	3.298	3.073	99.74%
36 Wine Tax	0.10%	1.624	1.705	1.798	1.892	3.329	3.690	99.84%
37 Beer Tax	0.17%	2.908	2.922	2.965	3.006	5.830	5.971	100.00%
38 Telephone License Tax	0.00%	0.017	-	-	-	0.017	-	100.00%
39 Long Range Bond Excess	0.00%	-	-	-	-	-	-	100.00%
<b>Total General Fund</b>	<b>100.00%</b>	<b>\$1,708.166</b>	<b>\$1,762.355</b>	<b>\$1,797.764</b>	<b>\$1,875.209</b>	<b>\$3,470.521</b>	<b>\$3,672.973</b>	<b>100.00%</b>

<b>Revenue &amp; Transportation Interim Committee</b> <b>Non-General Fund Revenue Estimates</b> In Millions								
Source of Revenue	Percent of 2006	Actual Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 2008	Estimated Fiscal 2009	Estimated Fiscal 06-07	Estimated Fiscal 08-09	Cumulative % of Total
1 Diesel Tax	19.22%	\$70.595	\$74.285	\$78.147	\$82.210	\$144.880	\$160.357	21.22%
2 Federal Forest Receipts	3.49%	12.800	13.006	13.148	13.282	25.806	26.430	24.71%
3 Gasoline Tax	36.81%	135.192	135.742	136.295	136.850	270.934	273.145	60.85%
4 GVW and Other Fees	7.87%	28.916	28.693	28.497	28.982	57.609	57.479	68.46%
5 Resource Indemnity Tax	0.40%	1.456	1.307	1.335	1.290	2.763	2.625	68.80%
6 Arts Trust Interest	0.12%	0.447	0.483	0.496	0.510	0.930	1.006	68.94%
7 Capital Land Grant Interest and Income	0.43%	1.590	1.072	1.157	1.217	2.662	2.374	69.25%
8 Deaf & Blind Interest and Income	0.08%	0.291	0.284	0.286	0.287	0.575	0.573	69.33%
9 Parks Trust Interest	0.26%	0.972	0.983	1.009	1.036	1.955	2.045	69.60%
10 Pine Hills Interest and Income	0.11%	0.397	0.387	0.389	0.391	0.784	0.780	69.70%
11 RIT Trust Interest	1.61%	5.916	5.645	5.646	5.658	11.561	11.304	71.19%
12 TSE Trust Interest	2.19%	8.039	8.434	8.950	9.489	16.473	18.439	73.63%
13 Economic Development Trust	0.33%	1.194	1.455	1.716	1.982	2.649	3.698	74.12%
14 Tobacco Trust Interest	0.92%	3.388	3.939	4.567	5.413	7.327	9.980	75.44%
15 Regional Water Trust Interest	0.42%	1.527	1.823	2.082	2.348	3.350	4.430	76.03%
16 Property Tax: 6 Mill	3.25%	11.952	12.505	12.971	13.359	24.457	26.330	79.51%
17 Common School Interest and Income	22.49%	<u>82.606</u>	<u>75.414</u>	<u>77.794</u>	<u>77.049</u>	<u>158.020</u>	<u>154.843</u>	100.00%
Total Non-General Fund	100.00%	<u>\$367.275</u>	<u>\$365.457</u>	<u>\$374.485</u>	<u>\$381.353</u>	<u>\$732.732</u>	<u>\$755.838</u>	100.00%

## 2007 BIENNIUM PROJECTION

After completion of the December 2005 Special Session Legislature, the unreserved ending general fund balance for the 2007 biennium was projected to be \$228.6 million (Figure 1). This balance was based on: 1) revenue estimates adopted in HJ 1; 2) LFD statutory appropriation transfers and reversion estimates; 3) all general fund appropriations authorized by the legislature; and 4) the estimated impacts of all enacted revenue legislation. It was also estimated that supplemental appropriations for FY 2007 would be \$38.3 million which was included in this projected balance.

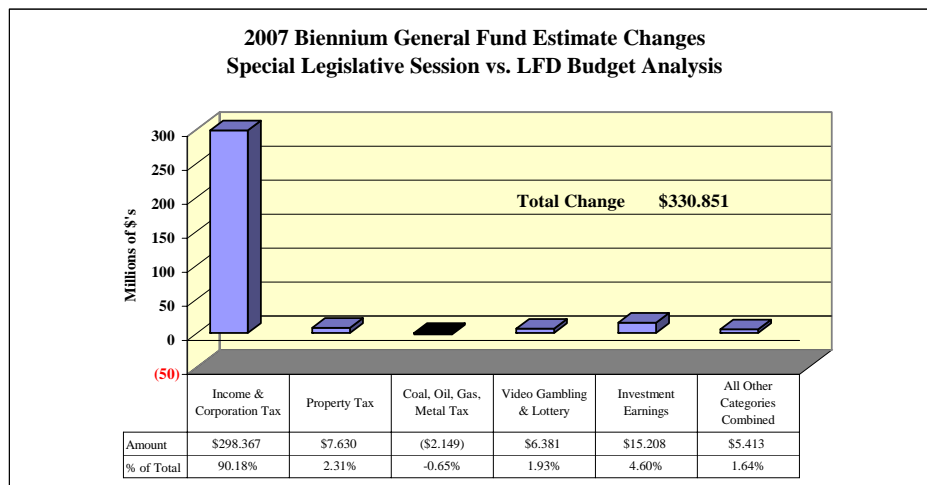
Figure 1

Comparison of 2007 Biennium General Fund Balance Special Session Budget vs. LFD Budget Analysis (In Millions)			
	Special Session 2007 Biennium	Budget Analysis 2007 Biennium	Difference 2007 Biennium
<b>Beginning Fund Balance</b>	<b>\$297.440</b>	<b>\$299.792</b>	<b>\$2.352</b>
<b>Revenues</b>			
Current Law Revenue	3,139.670	3,470.521	330.851
<b>Total Funds Available</b>	<b>\$3,437.110</b>	<b>\$3,770.313</b>	<b>\$333.203</b>
<b>Disbursements</b>			
General Appropriations	2,824.181	2,810.135	(14.046)
Statutory Appropriations	269.321	271.646	2.325
Non-Budgeted Transfers	54.435	53.472	(0.963)
Supplemental Appropriations	38.326	76.425	38.099
Feed Bill Appropriations	10.236	8.633	(1.603)
<b>Total Disbursements</b>	<b>\$3,196.499</b>	<b>\$3,220.311</b>	<b>\$23.812</b>
<b>Adjustments</b>	(12.015)	(19.224)	(7.209)
<b>Projected Ending Fund Balance</b>	<b>\$228.596</b>	<b>\$530.778</b>	<b>\$302.182</b>

As Figure 1 shows, the revised unreserved general fund balance at the end of the 2007 biennium is now projected to be \$530.8 million. This revised projection is based on: 1) revenue estimates adopted by RTIC on November 15, 2006; 2) LFD statutory appropriation, transfer, and reversion estimates; and 3) supplemental appropriation recommendations by the executive. This projected balance equals 15.3 percent of anticipated revenues for the 2007 biennium and is \$302.2 million above the balance anticipated after adjournment of the December 2005 Special Session Legislature.

The increase in the projected general fund balance is due to several factors that have transpired since adjournment of the legislature. Total general fund revenues are expected to be \$330.9 million more than anticipated, while disbursements are expected to be \$23.8 million more than authorized by the legislature. Fund balance adjustments are expected to be a negative \$19.2 million which is \$7.2 million more than anticipated.

Figure 2



The improved revenue condition (\$330.9 million) can be attributed to the factors shown in Figure 2. As shown in the figure, the three income sources primarily responsible for Montana's revenue picture improvement are individual income, corporation income, and investment earnings. Individual income tax has experienced increased growth resulting, in large part, from higher capital



gains income in calendar 2004 and 2005, an improvement in wage growth (especially in real wage growth per worker), and higher royalty income in calendar 2004 and 2005. The corporation income tax has rebounded as Montana and multi-state corporations have recovered from the 2001 recession and the effects of "9/11". Additionally, the impact of the federal stimulus bonus depreciation provisions of calendar 2002 and 2003 will now create a decrease in the amount of depreciation expense corporations can claim in future years. This will result in increased tax liabilities. Finally, investment earnings have improved because of higher short-term interest rates and higher invested cash balances.

The primary reasons for the change in disbursements (\$23.8 million) are as follows:

Increased Disbursements

1. Larger supplemental appropriations for wildfires (\$25.1 million) and Corrections (\$5 million); elimination of \$0.4 million for the Department of Revenue; and new supplement requests for Justice (\$0.6 million), Livestock (\$0.1 million), Transportation (\$1.3 million), DNRC (\$0.6), Judiciary (\$2.5 million), and Public Defender (\$3.3 million); and
2. Increases in statutory appropriations of \$16.5 million for emergency appropriations and \$0.7 million for local entitlement payments are offset by a decrease to estimated statutory appropriations of premium taxes to retirement funds of \$14.9 million, primarily due to late payments by the State Auditor.

Decreased Disbursements

3. Transfers are reduced due to reductions in anticipated transfers from HB 414 which did not occur (\$1.1 million), vehicle fee transfers (\$0.2 million), and HB 761 (\$0.5 million). These reductions are offset by an increase in DPHHS non-budgeted transfers of \$0.8 million;
4. Estimated feed bill appropriations decrease \$1.6 million because \$2.1 million of FY 2006 continuing feed bill appropriations anticipated for the special session (prior to the end of FY 2006) are not included in the updated estimates. This amount is offset by an increase in the estimate of the FY 2007 feed bill from \$7.0 million to \$7.6 million; and
5. General appropriations decrease primarily due to greater anticipated reversions in appropriations for support of public schools. Based on RITC revenue estimates, deposits to the guarantee account are expected to increase due to increases in mineral royalty and related revenue. Therefore, general fund appropriations, including anticipated reversions, are reduced accordingly.

Fund Balance Adjustments

These adjustments consist of prior year adjustments to revenues and expenditures and any direct adjustments to fund balance. Unlike the December special session estimates, this analysis contains actual prior year adjustments for FY 2006 as well as more recent estimates for FY 2007. It also includes the \$15.7 million prior year expenditure for the missed payment of insurance premium tax revenue to retirement funds in FY 2006.

As Figure 1 shows, the combined impact of higher revenues, reduced disbursements, and negative fund balance adjustments is a net increase in the projected fund balance of \$302.2 million for the 2007 biennium.

## 2009 BIENNIUM PROJECTION

Figure 3 shows the projected present law general fund balance for the 2009 biennium. Amounts shown include the revenue estimates as adopted by RTIC on November 15, 2006, and the cost of operating state government based on present law requirements. These disbursement amounts are as proposed in the executive budget. The present law amounts shown for both anticipated revenues and expenditures do not include any new proposals or initiatives recommended by the executive.

As Figure 3 shows, the 2009 biennium ending general fund balance is projected to be \$879.9 million before any new proposals or initiatives are considered. This balance indicates the state can maintain the existing present level of services without a reduction in services or revenue enhancements. Also shown in

Figure 3 is a present law difference between the executive and the LFD budget analysis of \$109.5 million. The LFD analysis indicates that present law costs are over \$100 million less than portrayed by the executive (See the LFD issue on page 150). As shown in Figure 3, this reduced cost for present law increases the projected balance to \$989.4 million before reserves.

Figure 3

2009 Biennium General Fund Balance Present Law Only (In Millions)			
	Estimated Fiscal 2008	Estimated Fiscal 2009	Estimated 2009 Biennium
<b>Beginning Fund Balance</b>	<b>\$530.778</b>	<b>\$687.038</b>	<b>\$530.778</b>
<b>Revenues</b>			
Current Law Revenue	1,797.764	1,875.209	3,672.973
<b>Total Funds Available</b>	<b>\$2,328.542</b>	<b>\$2,562.247</b>	<b>\$4,203.751</b>
<b>Disbursements</b>			
General Appropriations			
Human Services	354.411	369.088	723.499
Corrections	164.283	169.317	333.600
Higher Education	161.550	166.385	327.935
Public Schools	604.165	615.467	1,219.632
Other Agencies	200.174	199.485	399.659
Statutory Appropriations	148.719	148.864	297.583
Non-Budgeted Transfers	9.126	9.310	18.436
Feed Bill Appropriations	2.280	8.740	11.020
Anticipated Reversions	(3.204)	(4.344)	(7.548)
<b>Total Disbursements</b>	<b>\$1,641.504</b>	<b>\$1,682.312</b>	<b>\$3,323.816</b>
<b>Ending Fund Balance Before Reserve</b>	<b>\$687.038</b>	<b>\$879.935</b>	<b>\$879.935</b>
Executive/LFD Present Law Difference	37.161	72.320	109.481
<b>Ending Fund Balance With LFD Present Law</b>	<b>\$724.199</b>	<b>\$952.255</b>	<b>\$989.416</b>
Proposed Executive Budget Reserve	(100.000)	(100.000)	(100.000)
<b>Projected Present Law Surplus</b>	<b>\$624.199</b>	<b>\$852.255</b>	<b>\$889.416</b>

### LFD COMMENT

Although the executive is requesting supplemental appropriations of \$76.4 million for FY 2007, their fund balance statement for the 2009 biennium does not include any anticipated supplemental appropriations. Supplemental appropriations have never been less than \$11.5 million for the last 10 biennia.

Figure 4

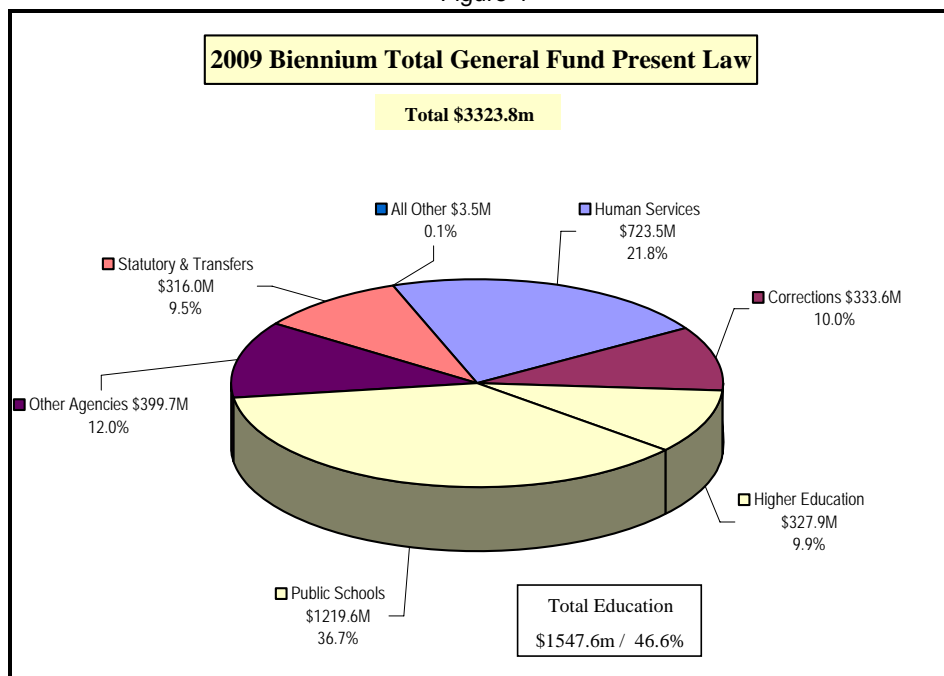


Figure 4 shows the allocation of general fund dollars to functional areas, provided the funds are available to fund present law costs. As the chart indicates, educational services consume 46.6 percent of total general fund expenditures, with human services and correctional services expending 31.8 percent. All other governmental agencies expend 12.1 percent, with the remaining 9.6 percent expended by statutory appropriations for debt service, retirement systems, local government reimbursements and transfers. For more information on statutory appropriations and non-budgeted transfers, see pages 195 and 199.

Figure 5 on the following page shows the projected general fund balance with the executive new proposals and initiatives included. The executive new proposals are categorized as either a revenue or disbursement proposal. Since the present law balance is positive, the total budget initiatives for all of the executive new proposals are a negative \$767.2 million. This amount, combined with the available present law balance, results in an ending balance of \$222.2 million. When the executive's recommended ending fund balance reserve of \$100.0 million is deducted, a difference of \$122.2 million is created. The executive proposes to transfer this excess to a "Big Sky Savings" account. The purpose of this account as stated in the executive budget would be to "protect Montanans from the impacts of potential future boom and bust cycles." The funds in this account would be used in subsequent biennia if revenues fell below legislative revenue estimates.

#### LFD COMMENT

The executive budget as submitted on November 15, 2006, did not contain any details or proposed legislation on how the "Big Sky Savings" account would function. Subsequent to the release of the executive budget, the executive endorsed the "budget stabilization" legislation adopted by the Legislative Finance Committee on November 28, 2006. The executive offered an amendment to this legislation that requires the executive to transfer any FY 2009 estimated unrestricted ending general fund balance above \$100 million to the "budget stabilization" account by January 1, 2009. The committee adopted this amendment into their proposed legislation.

**LFD  
ISSUE**

The amendment proposed by the executive for a budget stabilization account specifies the Governor's Office of Budget and Program Planning shall prepare the ending fund balance calculation. The legislature, through the Legislative Finance Committee, is precluded from a formal review process prior to the transfer being completed. The legislature may want to amend the legislation to specify an oversight role for the Legislative Finance Committee.

Figure 5

<b>2009 Biennium General Fund Balance With Executive Budget New Proposals (In Millions)</b>			
	Estimated Fiscal 2008	Estimated Fiscal 2009	Estimated 2009 Biennium
<b>Beginning Present Law Balance</b>	<b>\$989.416</b>	<b>\$492.457</b>	<b>\$989.416</b>
<b>Executive Revenue Proposals</b>			
Dept. of Revenue Additional Auditing	5.159	10.202	15.361
Dept. of Revenue Compliance Legislation	28.946	28.266	57.212
Governor's Rebate Initiative	4.022		4.022
<b>Total Revenue Proposals</b>	<b>\$38.127</b>	<b>\$38.468</b>	<b>\$76.595</b>
<b>Executive Disbursement Proposals</b>			
Additional Present Law in HB2	37.161	72.320	109.481
New Proposals in HB2			
Human Services	31.007	33.970	64.977
Corrections	6.846	1.876	8.722
Higher Education	4.042	3.227	7.269
Public Schools	20.781	22.594	43.375
Other Agencies	42.118	22.986	65.104
Pay Plan Proposal	20.149	38.456	58.605
Long Range Planning			
Buildings	50.875	50.875	101.750
Parks	15.000		15.000
Information Technology	25.352	29.120	54.472
Tax Modifications			
Personal Property Reduction	15.000	15.000	30.000
Property Tax Rebate	98.381		98.381
Water Tax Rebate	20.428		20.428
Retirement Systems			
Retirement Rate Increase	14.366	14.965	29.331
TRS Retirement Cash Transfer	100.000		100.000
Emergency Statutory Appropriation	9.000		9.000
Miscellaneous Other Proposals			
Cultural Arts Trust	1.500		1.500
Military Family Relief	1.000		1.000
Reclamation & Remediation	2.000		2.000
Property Tax Reserve Fund	14.500		14.500
Fish For Free	0.391	0.391	0.782
Department of Justice	0.200	0.200	0.400
Department of Revenue	2.400	1.483	3.883
Department of Revenue Compliance	1.589	1.230	2.819
Department of Revenue Litigation	1.000		1.000
<b>Total Disbursement Proposals</b>	<b>\$535.086</b>	<b>\$308.693</b>	<b>\$843.779</b>
<b>Total Executive New Proposals</b>	<b>(\$496.959)</b>	<b>(\$270.225)</b>	<b>(\$767.184)</b>
<b>Ending Balance Before Reserve</b>	<b>\$492.457</b>	<b>\$222.232</b>	<b>\$222.232</b>
Executive Proposed Ending Fund Reserve	100.000	100.000	100.000
<b>Big Sky Savings Account</b>		<b>\$122.232</b>	<b>\$122.232</b>

**LFD  
COMMENT**

The executive budget includes phased-in proposals that will cost more in the 2011 biennium budget. This means the 2009 legislature will be faced with funding additional services above the 2009 biennium costs. For information on phased-in proposals, see page 157.

The following section briefly describes each of the new initiatives shown in Figure 5.

## **EXECUTIVE REVENUE PROPOSALS**

### ***DOR Additional Auditing***

The Department of Revenue (DOR) expects an additional \$15.4 million general fund revenue over the biennium through additional auditing efforts obtained from additional FTE and funding requested in HB 2:

- PL 701 - 7.0 FTE and \$1.9 million total cost (\$1.7 million general fund cost) (see Volume 3, page A-164 for an analysis of this proposal). Estimated additional revenue for the 2009 biennium is \$1.4 million.
- PL 7012 - 6.0 FTE and \$0.8 million general fund cost (see Volume 3, page A-187 for an analysis of this proposal). Estimated additional revenue for the 2009 biennium is \$2.3 million.
- PL 7019 - 23.0 FTE in FY 2008 and an additional 10.0 FTE in FY 2009 for a total cost of \$4.5 million (\$4.1 million general fund cost) (see Volume 3, page A-190 for an analysis of this proposal). Estimated additional revenue for the 2009 biennium is \$11.7 million.

### ***DOR Additional Compliance***

The DOR expects an additional \$57.2 million general fund revenue over the biennium based on a proposed package of compliance legislation. See page 86 for a complete description of these proposals and the anticipated revenue for the 2009 biennium:

### ***Governor's Rebate Initiative***

The governor proposes to spend \$98.4 million general fund (although the budget text mentions \$100 million, the balance sheet reflects a smaller amount) by providing a property tax rebate up to \$400 to each Montana resident homeowner. In doing so, state and federal taxable income is increased producing an additional \$4.0 million in state income taxes in FY 2008.

## **EXECUTIVE DISBURSEMENT PROPOSALS**

### ***Additional Present Law in HB 2***

The executive is proposing an additional \$109.5 million general fund for the 2009 biennium in present law adjustments. Analyses of these adjustments by program within each agency are provided in Volumes 3 through 7.

### ***New Proposals in HB 2***

The executive is proposing \$189.4 million general fund for new and expanded programs over the 2009 biennium. Analyses of these new proposals by program within each agency are provided in Volumes 3 through 7, and are summarized on page 151 of this volume.

## ***Pay Plan Proposal***

The state government pay plan endorsed by the executive will cost \$58.6 million general fund (\$100.7 total funds) over the biennium. Elimination of the current classification system is proposed and a majority of state employees would be moved to a broadband system. See page 124 of this volume.

## ***Long Range Planning***

The executive has three proposals totaling \$171.2 million general fund it considers applicable for long-range planning:

- Buildings – In addition to the traditional funding sources for the building construction and maintenance, the executive proposes to transfer \$101.8 million general fund over the biennium to help fund \$126.6 million in capital projects. See Volume 7, Section F for a list of all proposed capital projects.
- Parks – The executive proposes to transfer \$15.0 million general fund in FY 2008 to the capital projects fund to enable the Department of Fish, Wildlife and Parks to purchase land or easements, lease land, and enter into development agreements. See Volume 7, Section F for a list of the proposed projects.
- Information Technology – Although these projects have traditionally been presented in HB 2 for funding, the executive proposes to spend \$54.5 million general fund over the biennium on nine information technology projects. These appropriations, like others in HB 5 and unlike those in HB 2, continue indefinitely until the money is spent or the legislature eliminates the appropriations. See Volume 7, Section F for a list and descriptions of the proposed projects.

## ***Tax Modifications***

The executive has three proposals it considers tax initiatives:

- Personal Property Reduction – The executive plans to eliminate business equipment taxes for certain Montana businesses and spend \$30.0 million general fund to pay local governments as reimbursement for lost property tax revenue. The executive does not specify what type of appropriation would be used to make the reimbursement. The reduction in state and local revenue would be recovered through additional compliance efforts directed toward non-residents and out-of-state companies. See page 99 of this volume for further information.
- Property Tax Rebate - The governor proposes to spend \$98.4 million general fund (although the text mentions \$100 million, the balance sheet reflects a smaller amount) by providing property tax rebate, up to a \$400, to each Montana resident homeowner. In doing so, state and federal taxable income is increased producing an additional \$4.0 million in state income taxes in FY 2008. See page 98 of this volume for further information.
- Water Tax Rebate – The executive proposes to suspend the water adjudication fee enacted by the 2005 Legislature (HB 22) and transfer \$15.9 million general fund in FY 2008 to the water adjudication account. In addition, the executive proposes to refund \$4.0 million in fees paid during 2005 and 2006 at an estimated cost of \$0.5 million. Total cost of the proposal is estimated at \$20.4 million. See page 98 of this volume for further information.

## ***Retirement Systems***

Three measures to help shore up retirement funds are proposed by the executive:

- Spend \$100.0 million general fund in FY 2008 to transfer the money to the teachers' retirement fund
- Reduce benefits for new employees

- Increase employers' contributions for the PERS retirement system and the TRS retirement system. Increased employer contribution will cost \$29.3 million and will be paid with general fund to prevent increases in local property taxes. The executive does not specify what type of appropriation would be used to make the reimbursement to state agencies and school districts. See page 140 of this volume for more information.

### ***Emergency Statutory Appropriation***

The legislature has statutorily appropriated \$16.5 million general fund to the governor each biennium for declared disasters or emergencies (of this amount, \$0.5 million is for disasters declared by the president of the United States). The governor proposes to increase the amount to \$25.5 million. Although wildfires were the stated justification for this increase, other events also qualify. In FY 2004, the legislature increased the statutorily appropriated amount for emergencies declared by the governor from \$12.0 million to the current \$16.0 million. Only in the 2001 biennium has the \$16.0 million been entirely spent.

#### **LFD ISSUE**

#### **Increase May Not be Needed**

Historically, the largest expenditures from the emergency statutory appropriation have been for wildfires. The legislature has traditionally not appropriated general fund in HB 2 in anticipation of wildfire costs, but relied on the emergency statutory appropriation and supplemental appropriations to fund the costs. If the legislature changes this policy and provides appropriations for wildfires in HB 2 (the executive is proposing to appropriate \$10 million general fund for the 2009 biennium), increasing the maximum amount of the emergency statutory appropriation may not be necessary.

### ***Miscellaneous Other Proposals***

The executive proposes a number of other miscellaneous initiatives:

- Cultural Trust – Transfer \$1.5 million general fund in FY 2008 to the cultural trust fund, the earnings from which are used for cultural grants and administration
- Military Family Relief – Spend \$1.0 million general fund in FY 2008 to create a Military Tax Relief Fund.

#### **LFD ISSUE**

The executive does not specify what type of appropriation would be used to implement this proposal. The printed executive budget does not provide specific details.

- Reclamation & Remediation - \$2.0 million of general fund is being requested to accelerate the cleanup of some CERCLA and abandoned mine sites in FY 2008.

#### **LFD ISSUE**

The executive does not specify what type of appropriation would be used to implement this proposal. The printed executive budget does not provide specific details.

- Property Tax Reserve Fund (LC905) – The executive proposes to provide a reserve fund to reimburse local governments for protested centrally assessed property taxes. Local governments would be required to remit 10 percent of the protested amount to the state to receive reimbursement.

**LFD  
ISSUE**

The executive does not specify what type of appropriation would be used to implement this proposal. The printed executive budget does not provide specific details.

- Fish for Free – The executive plans to eliminate fishing fees for people under 15 years of age and over 61 years of age at a cost of \$782,000 to the general fund.

**LFD  
ISSUE**

The executive does not specify what type of appropriation would be used to implement this proposal. The printed executive budget does not provide specific details.

- Department of Justice (LC 71) – Additional authority to spend \$400,000 general fund over the 2009 biennium through a new statutory appropriation will be requested to fund legislation changing the method of paying county attorneys' salaries. See Volume 6, page D-44 for a discussion of the proposed legislation.
- Department of Revenue - Additional authority to spend \$3.9 million general fund over the 2009 biennium will be requested to fund various pieces of legislation.

**LFD  
ISSUE**

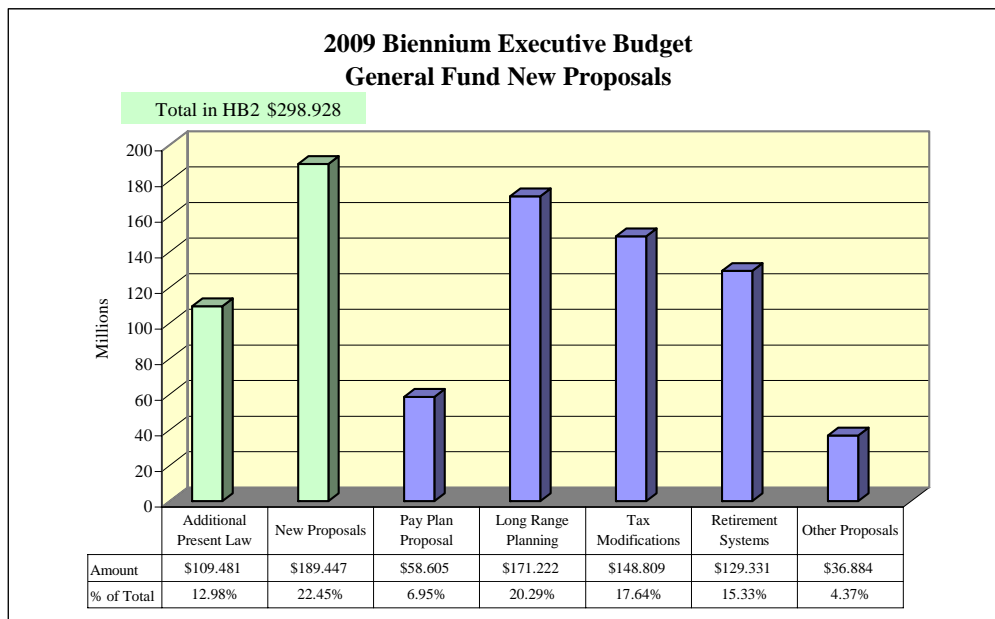
The executive does not specify what type of appropriation would be used to implement this proposal. The printed executive budget does not provide specific details.

- Department of Revenue Compliance – Numerous pieces of legislation are being drafted addressing a myriad of changes to tax laws. Funding for these various proposals will cost \$2.8 million general fund.
- Department of Revenue Litigation – The executive requests \$1.0 million general fund as a HB 2 language appropriation in FY 2008 to fund tax litigation related to protested centrally assessed property taxes and corporation income taxes.

Figure 6 shows the allocation of all new proposal expenditure changes to functional areas. As the figure depicts, the executive budget allocates the largest dollar increases to governmental services budgeted in HB 2 (general appropriations act), long-range planning, tax modifications, and retirement issues. The pay plan proposal and other miscellaneous proposals receive the least increases when compared to the other areas.

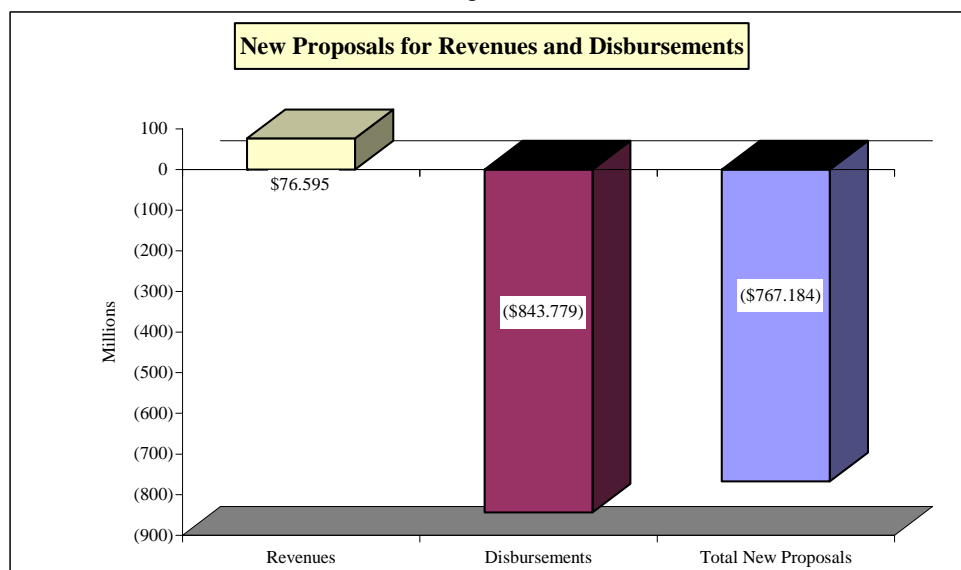


Figure 6



The new proposal recommendations of the executive include both revenue and disbursement types. Figure 7 graphically portrays the dollar impact of these proposals. As shown in the figure, revenue initiatives are \$76.6 million and disbursement proposals (including \$109. million for other emergencies) are \$843.8 million, for a combined impact of a negative \$767.2 million. When this amount is combined with the present law surplus of \$989.4 million, the executive budget (if adopted) would create a general fund balance of \$222.2 million, or \$122.2 million above the recommended reserve of \$100.0 million.

Figure 7



**LFD  
ISSUE**

The executive budget, as proposed, stresses the need for the general fund budget to be structurally balanced as well as sustainable. As stated in the executive budget “the Governor strongly advocates a budget with a prudent cap on spending that provides for stable funding of essential state services for the future.” Specifically, the executive proposes to accomplish this goal by capping one-time expenditures for the 2009 biennium at \$500 million, plus limiting on-going expenditures for FY 2009 at \$1.8 billion. Figure 8 shows total expenditures when all of the executive budget proposals are incorporated. As shown in the figure, total expenditures for FY 2009 would be \$1.918 billion, which includes \$95.5 million of one-time expenditures. Removing these one-time expenditures leaves an on-going expenditure base of \$1.823 billion, or \$23 million above the proposed spending cap that the Governor is advocating. If the legislature agrees with the \$1.8 billion spending cap proposal, the legislature would need to reduce the executive budget in FY 2009 for on-going expenditures by at least \$23 million.

Figure 8

Executive Budget Proposal	FY 2008	FY 2009
Total Disbursements	\$2,139.430	\$1,918.686
Less One-Time Disbursements	<u>404.049</u>	<u>95.521</u>
On-Going Disbursements	\$1,735.381	\$1,823.165
<b>Governor's Proposed Spending Cap</b>		<u>1,800.000</u>
<b>On-Going Disbursements Above Proposed Cap</b>		<b>(\$23.165)</b>

## EXECUTIVE BUDGET ONE-TIME VS ON-GOING

The executive budget proposes to use one-time general fund revenues on one-time expenditures. One-time revenue for the 2007 biennium can be simply defined as the projected ending fund balance for the 2007 biennium (\$530.8 million). Since revenues exceeded the legislative adopted budget in the 2007 biennium, these excess monies should not be used in the 2009 biennium for on-going services. If they are, a structural imbalance is created where on-going disbursements exceed on-going revenues. The executive budget proposes to use \$499.4 million of general fund monies for one-time only initiatives.

As Figure 9 shows, the executive budget proposes using \$499.4 million of general fund revenue for one-time expenditure initiatives during the 2009 biennium. Figure 9 also shows the recommended one-time expenditures by three categories, “HB 2 Present Law Adjustments”, “HB 2 New Proposals” and “Other New Initiatives”. As stated in the executive budget, “These expenditures are primarily a down payment on our future as Montanans. We have tax rebates, paying down debt, “fixing the roof”, and investments in buildings, technology, and our parks.”

Figure 9  
(continued on next page)

Executive Budget One-Time Only Initiatives - 2009 Biennium			
Description of Initiative	Proposed Fiscal 2008	Proposed Fiscal 2009	Biennium Total
<b>HB2 Present Law Adjustments</b>			
PL 00003 Re-authorize Governor's Residence OTO Appropriation	\$25,000	\$25,000	\$50,000
PL 00006 Governor's Office OTO Partial Reauthorization	15,000	15,000	30,000
PL 00006 MWP Security/Training Equip. (OTO)	152,915	-	152,915
PL 00009 Aircraft Engine Overhaul Contingency OTO	429,000	-	429,000
PL 00110 Major Litigation - OTO	250,000	250,000	500,000
PL 00116 Correctional Staff Scheduling Software - OTO	247,000	27,800	274,800
PL 00117 Commissary, Inmate Banking, Rest. Software OTO	125,000	17,500	142,500
PL 00118 MSP fiber plant upgrade OTO	350,000	26,750	376,750
PL 00308 SABHRS Readiness Assessment (Biennial/OTO)	70,000	-	70,000
PL 00501 PHYCF Safety & Security Replacement Needs OTO	161,000	-	161,000
PL 00502 RYCF Safety/Security Replacement Needs OTO	60,100	-	60,100
PL 00503 PHYCF Replace Gym Floor OTO	140,000	-	140,000
PL 00506 PHYCF Laundry OTO	50,900	-	50,900
PL 00701 Compliance - Legal	23,550	-	23,550
PL 00802 Reappraisal - GIS Staff-OTO	595,595	208,499	804,094
PL 01000 Moving Expenses (OTO)	30,000	-	30,000
PL 01001 Business Process Improvement OTO	1,000,000	800,000	1,800,000
PL 01011 Fulfill Statutory Responsibilities	679,700	125,000	804,700
PL 01502 E-Government IT-OTO	51,894	49,250	101,144
PL 01803 Continuation of OTO - Medicaid Fraud Unit Increase	25,404	25,902	51,306
PL 02103 CSD Equipment IT OTO	30,000	-	30,000
PL 02104 GIS Enterprise Equipment IT OTO	105,000	25,000	130,000
PL 02301 SABHRS Readiness Assessment (Biennial/OTO)	200,000	-	200,000
PL 03006 MSP One Time Only Supplies OTO	496,503	-	496,503
PL 03010 MSP Replacement Equipment - OTO	162,500	216,000	378,500
PL 03013 MSP Staff Transportation - OTO	161,223	-	161,223
PL 03508 Forestry Equipment Replacement IT OTO	30,600	12,500	43,100
PL 04008 Accelerated Remediation Selected CECRA Sites OTO	1,000,000	1,000,000	2,000,000
PL 05006 Air Resources Bureau Relocation-RST/OTO/BIE	13,390	13,520	26,910
PL 05101 BRD New Worker Training HB0002- OTO	3,997,361	3,997,450	7,994,811
PL 05103 BRD Main Street HB0002- OTO	123,496	123,548	247,044
PL 05104 BRD Made In Montana HB0002- OTO	100,000	100,000	200,000
PL 05105 BRD Tribal Economic Development HB0002 - OTO	798,496	798,548	1,597,044
PL 05106 BRD Montana Capital Investment Board HB0002- OTO	296,936	73,210	370,146
PL 07012 Tax Gap Analysis	23,550	-	23,550
PL 07013 Citizen Services	3,925	-	3,925
PL 07019 Compliance - Audit & Collections	78,500	39,250	117,750
PL 08012 Maintain Parcel Count Caseload	94,200	31,400	125,600
<b>Total HB2 Present Law Adjustments</b>	<b>\$12,197,738</b>	<b>\$8,001,127</b>	<b>\$20,198,865</b>

Figure 9  
(continued from previous page)

<b>Executive Budget One-Time Only Initiatives - 2009 Biennium</b>			
Description of Initiative	Proposed Fiscal 2008	Proposed Fiscal 2009	Biennium Total
NP 00001 Campaign Filing, Lobbyist/Principal Systems OTO	\$123,338	\$46,575	\$169,913
NP 00006 K12 Education Data Systems	125,000	125,000	250,000
NP 00008 Database Re-Write - OTO	73,920	-	73,920
NP 00016 Storage Area Network (SAN) Replacement - OTO	160,000	-	160,000
NP 00054 Indian Ed for All Tribal History - Biennial OTO	237,500	237,500	475,000
NP 00101 Upgrade Department Server - OTO	25,000	-	25,000
NP 00106 BOPP Computer Software and a Scanner OTO	12,927	12,927	25,854
NP 00110 Electronic Storage and Workflow	136,200	143,800	280,000
NP 00110 Major Litigation - Wyoming (OTO)	3,000,000	-	3,000,000
NP 00111 Video Conferencing Expansion	54,000	-	54,000
NP 00120 Interoperable Communication Project - OTO	2,622,424	-	2,622,424
NP 00202 Free Electronic Filing	2,261,644	3,058,331	5,319,975
NP 00301 PERS Defined Contribution Transfer OTO	1,384,000	-	1,384,000
NP 00306 Fisheries Statewide Wildlife Grants	250,000	250,000	500,000
NP 00505 RYCF Commercial Kitchen OTO	35,000	-	35,000
NP 00507 State Wildlife Grants (SWG)	250,000	250,000	500,000
NP 00737 Earthquake Protection Enterprise Data Center-OTO	200,000	-	200,000
NP 01051 Improve Transferability and Student Data OTO	1,291,099	253,901	1,545,000
NP 01052 Coordinate and Enhance Distant Learning - OTO	450,000	450,000	900,000
NP 01501 Surface Transportation Litigation (OTO/Biennial)	3,000,000	-	3,000,000
NP 02007 Biofuels Testing - OTO	250,000	-	250,000
NP 02106 Upgrade GIS Hardware and Software OTO	12,000	-	12,000
NP 02501 RWRCC Contracted Services OTO	97,500	97,500	195,000
NP 03003 Noxious Weed Trust Fund OTO	5,000,000	-	5,000,000
NP 03205 Crime Lab Equipment (RST/OTO)	115,375	115,375	230,750
NP 03206 Forensic Science Lab - Records Mgmt. OTO	52,000	-	52,000
NP 03503 Fire Fighting Equipment - Rst/Bien/OTO	1,000,000	-	1,000,000
NP 03549 Woody Biomass Utilization Program - OTO	250,000	250,000	500,000
NP 04005 District Court Safety and Security Proposal - OTO	300,000	-	300,000
NP 05029 Swift Gulch Drainage System OTO/BIE	500,000	-	500,000
NP 05112 BRD - Biomedical Research Grant - Bien/OTO	2,000,000	-	2,000,000
NP 07411 HD Manufactured Home Renovation Program - OTO	3,053,837	50,407	3,104,244
NP 09053 Equip and Tech in High Demand Fields MUS & CC OTO	2,000,000	-	2,000,000
NP 09054 Wrkfee Train. in High Demand Fields MUS & CC -OTO	1,500,000	-	1,500,000
NP 09055 Research Agencies Equipment - OTO	1,000,000	-	1,000,000
NP 11038 Family Planning Waiver Implementation - OTO	348,297	347,669	695,966
NP 20011 Ombudsman Funding-Warm Hearts/Homes - OTO	300,000	300,000	600,000
NP 20908 Low Income Energy Assist. Prgm OTO	2,000,000	-	2,000,000
NP 33204 Methamphetamine Prevention - OTO	-	1,000,000	1,000,000
NP 40004 MMIS and Mental Health Systems Analysis (BIEN/OTO)	200,000	-	200,000
NP 70002 Ongoing Lab Equipment Replace & Maintenance OTO	145,000	145,000	290,000
NP 70003 WIC IT System Maintenance (BIEN - OTO)	290,000	-	290,000
NP 70107 Purchase of Tamiflu - Biennial OTO	118,000	0	118,000
<b>Total HB2 New Proposals</b>	<b>\$36,224,061</b>	<b>\$7,133,985</b>	<b>\$43,358,046</b>
<b>Total HB2 Present Law &amp; New Proposals</b>	<b>\$48,421,799</b>	<b>\$15,135,112</b>	<b>\$63,556,911</b>

Figure 9  
(continued from previous page)

<b>Executive Budget One-Time Only Initiatives - 2009 Biennium</b>			
Description of Initiative	Proposed Fiscal 2008	Proposed Fiscal 2009	Biennium Total
Long Range Building - Buildings	\$ 50,875,000	\$ 50,875,000	\$ 101,750,000
Long Range Building - Parks	15,000,000	-	15,000,000
Long Range Building - Information Technology	25,352,000	29,120,000	54,472,000
Cultural Arts Trust Addition	1,500,000	-	1,500,000
Emergency Statutory Appropriation	9,000,000	-	9,000,000
Teacher Retirement System	100,000,000	-	100,000,000
Military Family Relief	1,000,000	-	1,000,000
Reclamation and Remediation	2,000,000	-	2,000,000
Property Tax Reduction	98,381,000	-	98,381,000
Water Tax Repeal	20,428,000	-	20,428,000
Property Tax Reserve Fund	14,500,000	-	14,500,000
Fish for Free	391,230	391,230	782,460
Department of Revenue Tax Litigation	1,000,000	-	1,000,000
Pay Plan Proposal	75,000	0	75,000
<b>Total Other Initiatives</b>	<b>\$339,502,230</b>	<b>\$80,386,230</b>	<b>\$419,888,460</b>
<b>Total All Disbursement Initiatives</b>	<b>\$387,924,029</b>	<b>\$95,521,342</b>	<b>\$483,445,371</b>
Emergency Statutory Appropriation	16,000,000	-	16,000,000
<b>Grand Total Disbursement Initiatives</b>	<b>\$403,924,029</b>	<b>\$95,521,342</b>	<b>\$499,445,371</b>

To summarize the detail shown in Figure 9, these initiatives can be more appropriately categorized as: 1) general governmental services (HB 2 services); 2) paying off debts (retirement system); 3) addressing infrastructure needs (buildings and parks); 4) investing in information technology; 5) providing tax rebates; and 6) other. As shown in Figure 10, a majority of the funds are targeted to buildings and parks, retirement system, and tax rebates. Figure 11, shows by agency, which state agency budgets are recommended to receive one-time funding that will be included in HB 2. If the 60<sup>th</sup> Legislature accepts all of these recommendations, the legislature will still have \$29.8 million of one-time revenue for legislative consideration. These remaining one-time revenues could be used for other legislative initiatives (revenue and/or expenditure), creating a rainy day fund, or increasing the ending fund balance beyond the executive recommendation of \$100 million.

Figure 10

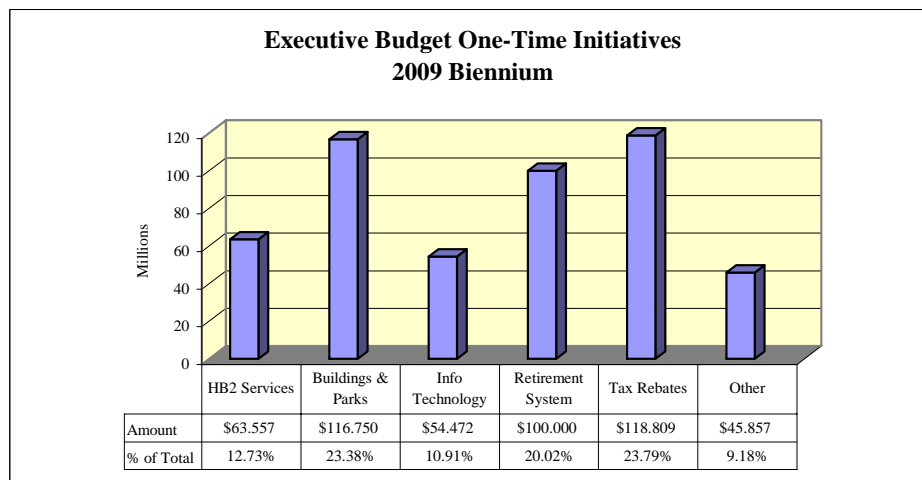
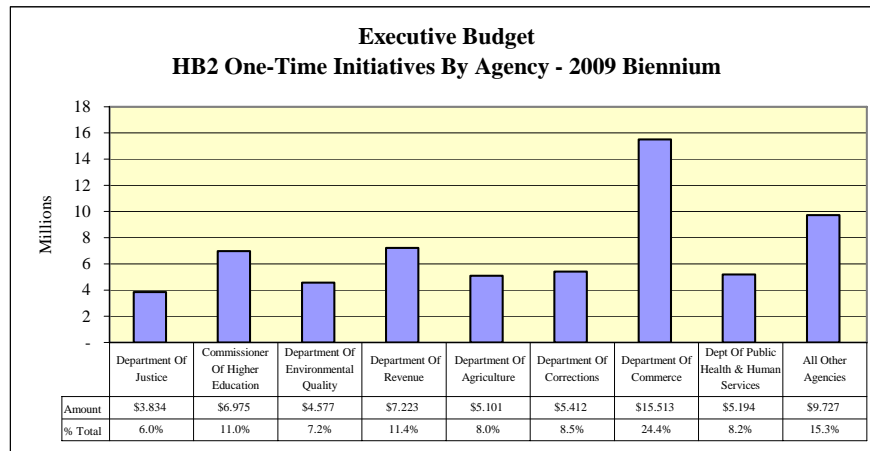


Figure 11


**LFD  
COMMENT**

The Legislative Fiscal Division recommends the legislature consider transferring a portion of these one-time revenues to a “rainy day fund” or “budget stabilization” account. This fund could then be used in subsequent biennia for emergencies and/or unexpected revenue shortfalls. The Legislative Finance Committee and executive have requested a bill draft to create a “budget stabilization” account.

## NEW GENERAL FUND TRANSFERS

“Transfers” is an accounting term that denotes the movement of money from one fund to another. Although this sounds innocuous, the legislature should be cautious when authorizing transfers, particularly from the general fund, and be aware of the various possible consequences and the alternatives to transfers.

### Executive Transfer Proposals

The executive is proposing 15 new transfers totaling \$342.5 million general fund in the 2009 biennium to various other funds. Figure 12 shows these proposals, the source of the authorization, amounts by fiscal year, and the destination fund. This large sum of money is in addition to the usual money needed to run state government on a day to day basis.

Figure 12

New Executive Budget General Fund Transfers						
2009 Biennium						
	Item	Vehicle	FY 2008	FY 2009	2009 Biennium	Destination
#1	Long range planning-OTO	HB 5	\$91,227,000	\$79,995,000	\$171,222,000	Capital projects
#2	Retirement-OTO	LC908	100,000,000		100,000,000	Fiduciary
#3	Water right fee OTO	LC906	15,900,000		15,900,000	State special
#4	Property tax reserve OTO	LC905	14,500,000		14,500,000	Fiduciary
#5	Deferred maintenance-ongoing	HB 2	7,150,000	7,150,000	14,300,000	Capital projects
#6	Wildfires-ongoing	HB 2	5,000,000	5,000,000	10,000,000	State special
#7	Noxious weed trust fund-OTO	HB 2	5,000,000		5,000,000	Trust
#8	HD manufactured home renovation-OTO	HB 2	3,000,000		3,000,000	State special
#9	Equipment & tech in high demand-OTO	HB 2	2,000,000		2,000,000	Current unrestricted
#10	Workforce training in high demand-OTO	HB 2	1,500,000		1,500,000	Current unrestricted
#11	Miscellaneous-Cultural trust OTO	HB 3	1,500,000		1,500,000	Trust
#12	PERS defined contribution-OTO	HB 2	1,384,000		1,384,000	Debt service
#13	Military family relief fund	LC313	1,000,000		1,000,000	State special
#14	Research agencies equipment-OTO	HB 2	1,000,000		1,000,000	Current unrestricted
#15	Fire trainer at FSTS-ongoing	HB 2	108,983	74,000	182,983	Current unrestricted
	Total		\$250,269,983	\$92,219,000	\$342,488,983	

## Alternatives

Funding program expenditures by transferring general fund to other funds from which an appropriation is made is cumbersome and may not be necessary. If the legislature wants to provide general fund for a specific program or use, it can appropriate the general fund directly for that purpose. For example, Figure 12 contains \$10.0 million general fund to be transferred to a state special revenue fund for wildfire costs (item #6). If the legislature wants to provide \$10.0 million of general fund money for wildfire suppression, it can provide a general fund appropriation in HB 2 and restrict it specifically for that purpose. As another example, if the legislature wanted to fund the expanded water rights program with general fund rather than fee revenue (item #3), general fund (in a much smaller amount) could be appropriated directly to this program in HB 2 to fund the biennial personnel and operating costs rather than transferring \$15.9 million general fund all at one time to the state special revenue fund.

## Appropriation not Required

Although a transfer of money from the general fund reduces the general fund balance, it is not considered an expenditure if the money stays within the state treasury and, therefore, does not require an appropriation. The legislature should not appropriate a transfer of money within the state treasury, but rather provide an authorization for the transfer. The fiduciary pension funds and current unrestricted funds are considered outside the state treasury and an appropriation is required to move general fund money into these funds.

### LFD ISSUE

#### Appropriation not Required

In HB 2 new proposals, the executive is requesting \$33.7 million of general fund appropriations to transfer money to other funds for which an appropriation is not required (Items #5, #6, #7, #8, and #12). The legislature should not appropriate the money in HB 2 for these transfers, but rather it should provide authorizations for the executive to transfer the money and then appropriate the money from the destination fund, if applicable.

## Consequences

The legislature has established a treasury fund structure (17-2-102, MCA) and designated various fund types and their restrictions. The type of fund in which money resides is important and the legislature should be aware of the consequences in transferring general fund to other funds. For examples:

- The executive is requesting that \$10.0 million general fund be transferred to a state special revenue fund for pay for wildfire costs. Once the general fund is transferred, it loses its “general” designation and can only be used for purposes specified in the establishment of the state special revenue fund, and no other use.
- The executive wants to transfer \$14.3 million general fund to the capital projects fund to be used for deferred maintenance. Usually, money in this fund is appropriated in HB 5. Unlike temporary appropriations in HB 2, HB 5 appropriations continue indefinitely until the money is spent or the legislature eliminates the appropriations.
- The executive also wants to transfer \$121.0 million general fund to fiduciary and trust funds. Once in these funds, the legislature has limited its control over the money. For money transferred to the pension fund, the legislature has no control. For money transferred to the noxious weed trust (a constitutional trust, Article IX, Section 6), constitutional provisions apply. Money transferred to the fiduciary property tax reserve fund is held by the state in a trustee capacity.

Money transferred to the cultural trust becomes part of the trust balance, but is available to the legislature through changes in statutes.

- To fund the military family relief fund, \$1.0 million general fund is proposed to be transferred to a state special revenue account. However, it is also proposed that money in the account be statutorily appropriated. This means the program will not be reviewed every biennium as are those funded through HB 2 and that the statutory appropriation is permanent until changed by legislation.

## Cash Flow

Of the new transfers totaling \$342.5 million general fund in the 2009 biennium, \$250.3 million is to be transferred in FY 2008 and \$92.2 million in FY 2009. In order to make the transfers, the money must be in the state treasury and be readily available. If the money is invested in short-term securities, it may not be readily available without incurring penalties or losses due to the early liquidation of the securities.

This happened with general fund transfers authorized by the legislature in the December 2005 Special Session. House Bill 1 appropriated \$125 million general fund to be transferred to the teachers' retirement system pension trust fund (\$100 million) and the public employees' retirement system pension trust fund (\$25 million). These appropriations were effective on passage and approval (December 16, 2005). To provide the necessary cash in the general fund to make these transfers, the Board of Investments sold eight bonds that were invested in the treasury fund, worth \$100 million, from December 7<sup>th</sup> to December 22<sup>nd</sup>. The bonds had maturity dates between April 24, 2006 and November 30, 2006. These transactions resulted in an unanticipated loss to the general fund of \$954,157.

### LFD ISSUE

#### Ensure no Investment Losses

Before authorizing large transfers of general fund money to other accounts, the legislature should ensure that no investment losses will be incurred. The timing of the transfers could be made contingent on the availability of cash obtained without incurring investment losses. The agencies authorized to make the transfers could be directed to provide a schedule of the anticipated transfers to the Board of Investments in advance of the transfers to allow the Board adequate time to plan for the liquidation of investments.

## DIFFERENCES FROM EXECUTIVE PROPOSAL

The executive budget as submitted projects an ending fund balance of \$242.4 million after funding all executive present law adjustments and new proposals. It should be noted that this balance is as adjusted to include revenue proposal detail obtained from Department of Revenue that did not correspond to the information shown in the printed executive budget. This adjusted executive budget balance contrasts with Figure 5, which shows a general fund balance of \$222.2 million, or a difference of \$20.2 million. This balance is based on the RTIC revenue estimates, LFD estimates for statutory appropriations, transfers, and reversions, and the executive's recommendations for all present law adjustments and new proposals. As shown in Figure 13, there are a number of items that contribute to the total difference of \$20.2 million. Each of these differences is explained in the next section.



## Explanation of Differences

**Beginning FY 2007 Fund Balance** – The fund balance at the end of FY 2006 decreases by \$13.5 million due to Comprehensive Annual Financial Report adjustments recommended by the Legislative Audit Division. The primary adjustment is a \$15.7 million reduction to account for the forgotten statutory appropriation to transfer money to retirement funds that should have occurred in FY 2006. The remaining \$2.2 million positive adjustment is from changes to the FY 2005 balance not known until January 2006.

**General Fund Revenue** - The combined differences of all general fund sources between the RTIC adopted estimates and the executive is \$29.8 million. The lesser revenue is primarily due to adoption by the committee of corporation income tax assumptions that produce less revenue than estimated by the executive. The net amount estimated by RTIC from other revenue sources is higher than the executive.

**General Appropriations** – The net difference between these appropriation items is \$0.8 million, primarily due to the feed bill. Of the FY 2007 \$7.6 million legislative feed bill, the LFD anticipates \$2.3 million will be unspent and carried over to FY 2008. The remaining difference is the sum of minor differences in multiple miscellaneous appropriations.

**Statutory Appropriations** – The executive mistakenly included a non-general fund statutory appropriation of \$2.6 million that is not included in the LFD estimate. However, the LFD includes \$1.0 million more in anticipated emergency appropriations than the executive. The remaining difference in this category is primarily due to the information received from agencies that administer statutory appropriations. In most instances, the executive and the LFD relied on information supplied by the respective agencies. Because the executive is required to submit the executive budget by November 15<sup>th</sup>, the LFD had more current information available.

**Non-Budgeted Transfers** – The LFD is higher by \$0.5 million in non-budgeted transfers. This is primarily due to the inclusion of \$1.2 million of transfers in DPHHS and \$0.2 million for HB 740 (asbestos disease account) not included in the executive. The executive includes \$0.9 million of transfers for HB 761 (military insurance premium assistance). This amount is not included in the LFD because contingency language has sunset the legislation.

**Reversions** – Higher reversions are anticipated by the LFD primarily from an analysis of individual FY 2007 appropriations, including public school funding appropriations adjusted for RITC revenue estimates for the guarantee account. Estimates for the 2009 biennium reversions are based on historical trends for each agency and are less than estimated by the executive.

Figure 13

<b>Differences From Executive Budget Fiscal 2007, 2008, 2009 (In Millions)</b>	
<b>Fund Balance Category</b>	<b>3 Year Difference</b>
+ Beginning Fund Balance	(\$13.530)
+ Revenues	(29.832)
- Disbursements	
General Appropriations	(0.760)
Statutory Appropriations	(1.727)
Non-Budgeted Transfers	0.521
Supplemental Appropriations	(0.005)
Anticipated Reversions	0.525
+ Fund Balance Adjustments	21.675
<b>Total Change to Fund Balance</b>	<b>(\$20.241)</b>

Fund Balance Adjustments – Prior to the Comprehensive Annual Financial Report adjustments to the FY 2006 beginning fund balance recommended by the Legislative Audit Division, the adjustment for the \$15.7 million forgotten payment was included as a prior year fund balance adjustment. The remaining difference is because the LFD estimates for prior year adjustments to revenues and disbursements are taken from SABHRS and, due to the timing of the Executive Budget, are more recent.

## Summary

In summary, with the RTIC revenue estimate recommendations there are sufficient revenues to support the executive present law budget recommendations, leaving an ending fund balance of a positive \$878.5 million. If the present law budget analysis of LFD staff is used, an ending fund balance of \$989.4 million is achieved. Because of this high balance, there are sufficient revenues to accommodate all of the executive new proposals, including the executive's higher present law request. If the total executive budget were funded as requested, the ending balance in the general fund would be \$100.0 million with \$122.2 million available in the Big Sky Savings Account. The Big Sky Savings Account is an executive proposal to transfer revenue above specified spending caps into a "savings account".

However, since the state incurs significant wildfire costs each year, some allowance for these costs should be included in any biennium ending fund balance projection. Although the cost of fighting wildfires can fluctuate significantly from biennium to biennium; a 7-year average, removing the high and low years (FY 2003 and FY 2007, respectively), is just over \$13.3 million per year. The executive budget is proposing that \$5.0 million per year be transferred to a state special revenue account for wildfire costs. Even if this proposal is adopted, this leaves a potential unfunded liability of \$8.3 million per year. The executive also includes the current general fund statutory appropriation of \$16.0 million in their balance sheet. This appropriation is specifically for the Governor to deal with declared disasters or emergencies such as floods, fires, and other natural disasters. This appropriation, however, cannot be used unless a disaster or emergency exists and is declared by the Governor. Since access to these funds is limited, it is not good fiscal policy to rely on these funds for additional wildfires costs. Without new legislative policies, fighting wildfires is a service provided by state government and all the costs should be budgeted for accordingly.

Finally, the executive budget proposes a number of transfers from the general fund to other accounts to address a number of public policy issues. Subsequent to the printed executive budget document, review of numerous legislative proposals initiated by the executive contain the following language: *"In order to maintain an adequate ending fund balance, if at any time during the 2009 biennium the Governor's office of budget and program planning projects a 2009 biennium unreserved ending fund balance of less than \$100 million, the Governor's office of budget and program planning may reduce the above one-time-only transfer. The department will transfer funds on a schedule approved by the Governor's office of budget and program planning that enables statewide management goals for cash flow and fund balances."*

**LFD  
ISSUE**

The above language raises several questions that the legislature should address before inclusion in any prospective legislation. This language does not address when these calculations would be done, how frequently they would be done, whether the transfers would be totally terminated or adjusted in some way to reflect the amount anticipated below the \$100 million threshold, whether the transfers would be made only to be returned if the projected balance drops below \$100 million, which transfers would receive priority (if any) over others, and what is the definition of a transfer.

- Does the legislature want to delegate the responsibility of determining a projected ending fund balance to the executive branch?
- Does the legislature want to delegate the responsibility of determining the amount of transfers to the executive branch?
- Assuming the legislature agrees with this policy position, does the Legislature want to enact an oversight role delegated to the Legislative Finance Committee?

## PROJECTED GENERAL FUND BALANCE

Figure 14 shows the detailed general fund balance sheet based on present law revenues and disbursements, followed by a sub-table that shows the balance when the executive's new proposals are included.

Figure 14

2007 and 2009 Biennium General Fund Balance Based on Present Law (In Millions)						
	Actual Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 2008	Estimated Fiscal 2009	Estimated 2007 Biennium	Estimated 2009 Biennium
<b>Beginning Fund Balance</b>	<b>\$299.792</b>	<b>\$408.580</b>	<b>\$530.778</b>	<b>\$724.198</b>	<b>\$299.792</b>	<b>\$530.778</b>
<b>Revenues</b>						
Current Law Revenue	1,708.166	1,762.355	1,797.764	1,875.209	3,470.521	3,672.973
<b>Total Funds Available</b>	<b>\$2,007.958</b>	<b>\$2,170.935</b>	<b>\$2,328.542</b>	<b>\$2,599.407</b>	<b>\$3,770.313</b>	<b>\$4,203.751</b>
<b>Disbursements</b>						
General Appropriations	1,441.188	1,303.427	1,447.423	1,447.423	2,744.615	2,894.846
Statutory Appropriations	120.226	151.420	148.719	148.864	271.646	297.583
Miscellaneous Appropriations	1.521	65.059			66.580	
Non-Budgeted Transfers	24.277	29.195	9.126	9.310	53.472	18.436
Continuing Appropriations		46.074			46.074	
Supplemental Appropriations		76.425			76.425	
Language Appropriations	0.706	0.636			1.342	
Feed Bill Appropriations		8.633	2.280	8.740	8.633	11.020
Anticipated Reversions	(21.179)	(27.297)	(3.204)	(4.344)	(48.476)	(7.548)
<b>Total Disbursements</b>	<b>\$1,566.739</b>	<b>\$1,653.572</b>	<b>\$1,604.344</b>	<b>\$1,609.993</b>	<b>\$3,220.311</b>	<b>\$3,214.337</b>
<b>Adjustments</b>	(32.639)	13.415			(19.224)	
<b>Unreserved Ending Fund Balance</b>	<b>\$408.580</b>	<b>\$530.778</b>	<b>\$724.198</b>	<b>\$989.414</b>	<b>\$530.778</b>	<b>\$989.414</b>
<b>Net Operations</b>	<b>\$141.427</b>	<b>\$108.783</b>	<b>\$193.420</b>	<b>\$265.216</b>	<b>\$250.210</b>	<b>\$458.636</b>

<b>New Executive Initiatives Not Included Above</b>						
<b>Revenue Initiatives</b>						
Dept. of Revenue Additional Auditing			5.159	10.202		15.361
Dept. of Revenue Compliance Legislation			28.946	28.266		57.212
Governor's Rebate Initiative			4.022			4.022
<b>Total Revenue Initiatives</b>			<b>\$38.127</b>	<b>\$38.468</b>		<b>\$76.595</b>
<b>Disbursement Initiatives</b>						
Additional Present Law			37.161	72.320		109.481
New Proposals			104.794	84.653		189.447
Pay Plan Proposal			20.149	38.456		58.605
Long Range Planning			91.227	79.995		171.222
Tax Modifications			133.809	15.000		148.809
Retirement Systems			114.366	14.965		129.331
Emergency Statutory Appropriation			9.000			9.000
Miscellaneous Other Proposals			24.580	3.304		27.884
<b>Total Disbursement Initiatives</b>			<b>\$535.086</b>	<b>\$308.693</b>		<b>\$843.779</b>
Big Sky Savings Account				122.230		122.230
<b>Potential Ending Fund Balance With Reserves</b>	<b>\$408.580</b>	<b>\$530.778</b>	<b>\$227.239</b>	<b>\$100.000</b>	<b>\$530.778</b>	<b>\$100.000</b>